



PLANNING FOR PROFIT



BRITISH
COLUMBIA

Ministry of Agriculture,
Fisheries and Food

**Head Lettuce
Fraser Valley
Fall 1996**

Agdex 251 - 810

Introduction

The planning process provides producers with the opportunity to look at their operation as a group of distinct enterprises. Alternative enterprises should be evaluated on the basis of **Contribution Margin**, taking into consideration resource constraints, market opportunity, risk and uncertainty.

The **Contribution Margin** must provide funds for interest, overhead and other indirect expenses as well as a return for living expenses, loan repayment and investment. These items should be included in the overall farm plan which will include a **Projected Income Statement** and **Projected Cash Flow Statement**.

Key Factors Affecting Profit

| | Target |
|----------|-----------------------|
| Quantity | 700 - 800 cases/acre |
| Price | \$9.00 - \$12.00/case |

Lettuce is precision seeded and rows are usually spaced 35 cm apart on raised beds with plants 28 to 32 cm apart within the rows. Lettuce is sensitive to most herbicides so cultural weed control methods are best. Crop rotation, stale seedbed technique, use of plug transplants, use of weed free manure and clean-up of annual weeds before planting will reduce the amount of hand weeding. An integrated pest management program can minimize pesticide use and costs.

A "Vegetable Production Guide for Commercial Growers" is available from the BC Ministry of Agriculture, Fisheries and Food.

Marketing Alternatives

Head lettuce is grown in southern BC under a delivery quota system. The majority of product is marketed through the Cloverdale Lettuce and Vegetable Co-operative located at:
5590 - 152 Street
Surrey, BC V3S 4P6
Phone: (604) 576-9101

Cash Flow Timing

| | J | F | M | A | M | J | J | A | S | O | N | D |
|------|---|---|----|----|----|----|----|----|----|----|----|---|
| %Inc | | | | | | | 20 | 20 | 20 | 20 | 20 | |
| %Exp | | 5 | 10 | 10 | 15 | 15 | 15 | 15 | 15 | 15 | | |

The above information indicates the timing of monthly flow of funds included in the **Contribution Margin** only. A complete **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans and personal expenses.

Rules of Thumb

| | |
|----------------------------|-----------------------|
| Investment | \$6,000 - \$7,00/acre |
| Contract Labour | 250-260 hr/acre |
| Direct Expense % of Income | 60% - 70% |

The above indicators are provided for comparison purposes. They are set out as potential targets for head lettuce production.

Contact: WAYNE ODERMATT, P. Ag.
Provincial Fresh Vegetable Specialist
Cloverdale
LORNE OWEN, P. Ag.
Financial Management Specialist
Abbotsford
Prepared By: ANDREA GUNNER, P. Ag.

HEAD LETTUCE

Target Yield - 750 Cases/Acre

Contribution Margin 1 Acre of Head Lettuce Fraser Valley

Total Income

| | Yield | Price | Unit | Income |
|----------|-------|--------|------|---------|
| Grade #1 | 750 | \$8.81 | case | \$6,609 |

Direct Expenses

| | Quantity | Price | Unit | Expense |
|------|----------|--------|-------|---------|
| Seed | 92 | \$0.85 | 1,000 | \$78 |

Plant Nutrients

| | | | | |
|-----------------|-----|-------|------|----|
| 13 - 16 - 10 | 180 | 0.38 | kg | 68 |
| Calcium Nitrate | 45 | 0.43 | kg | 19 |
| Lime | 0.5 | 59.00 | MT | 30 |
| Manure | 25 | 2.00 | yard | 50 |

Pest Control

| | | | | |
|------------|-----|-------|-------|----|
| CIPC | 1.9 | 34.90 | litre | 66 |
| Gramoxone | 2.2 | 21.60 | litre | 48 |
| Cygon (2X) | 0.3 | 15.23 | litre | 9 |
| Disyston | 0.6 | 23.00 | litre | 14 |
| Lannate | 340 | 0.07 | g | 25 |
| Monitor | 0.9 | 32.00 | litre | 29 |
| Zineb | 1.1 | 11.49 | kg | 13 |
| Pirimor | 0.2 | 90.90 | kg | 18 |
| IPM | 750 | 0.03 | case | 22 |

| | | | | |
|-----------------------|--|--|--|-----|
| Fuel Costs | | | | 113 |
| Repairs & Maintenance | | | | 125 |

Marketing Costs

| | | | | |
|---------------|-----|------|------|-----|
| Co-op Charges | 750 | 1.11 | case | 829 |
| Cartons | 750 | 1.25 | case | 937 |

| | | | | |
|--------------------------|-------|------|------|-------|
| Contract Labour | 251.5 | 8.00 | hour | 2,012 |
| Irrigation Water & Power | | | | 45 |

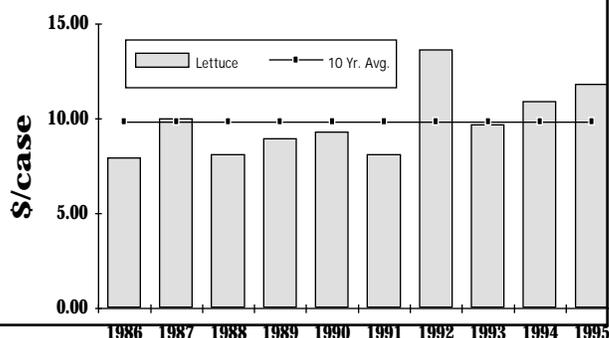
Total Direct Expenses **\$4,550**

Contribution Margin **\$2,059**

Buildings and Machinery Replacement Cost Total Farm Size - 60 Acres

| | |
|----------------------------|------------------|
| Buildings | \$ 60,000 |
| Power Machinery | 99,000 |
| Field Machinery | 78,500 |
| Product Handling Equipment | 37,500 |
| Irrigation & Drainage | 81,000 |
| Vehicles | <u>43,000</u> |
| Total | \$399,000 |

Head Lettuce Prices



Contribution Margin - Sensitivity Analysis

The table below lists the changes to contribution margin as quantity of yield changes and price received varies.

| PRICE \$/case | Yield Cases per Acre | | | |
|------------------|----------------------|-------|--------------|-------|
| | 650 | 700 | 750 | 800 |
| 8.00 | 886 | 1,168 | 1,450 | 1,732 |
| 8.81 | 1,413 | 1,736 | 2,059 | 2,382 |
| 10.00 | 2,186 | 2,568 | 2,950 | 3,332 |
| 11.00 | 2,836 | 3,268 | 3,700 | 4,132 |

This information is provided as a guideline only. Target yield indicates above average production. An individual crop plan should be developed by each producer. Planning forms may be obtained from your local office of the BC Ministry of Agriculture, Fisheries and Food.