PLANNING FOR PROFIT

Province of British Columbia
Ministry of Agriculture and Fisheries
Hon. John Savage, Minister

Alfalfa for the Dehydration Plant
Creston
Spring 1990

Agdex 121 - 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 **Gross Margin,** taking into consideration resource constraints, market opportunity, risk and uncertainty.

The **Gross 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
Quality	22% Crude Protein [1]
Quantity	4.5 - 6.5 Tonne/ac
Price	$30/Tonne
Life of Stand	4 yrs - 1 yr est., 3-4 prod

In order to achieve the best price for the product, it is important that alfalfa hay be high in crude protein and relatively weed free (less than 5% weeds on dry matter basis).

Alfalfa stands should be replaced after five years to maintain high yields.

[1] at 60% moisture content

Marketing Alternatives

Weather patterns in the Creston Valley make it difficult to put up high quality hay. Marketing alternatives include contracts with the dehydration plant, or if hay can be put up, it can be processed as a sun-cured product at the dehydration plant, or marketed to livestock producers.

Cash Flow Timing

	J	*F*	*M*	*A*	*M*	*J*	*J*	*A*	*S*	*O*	*N*	*D*
%Inc							40		35		25	
%Exp				100								

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

Rules of Thumb

Investment	$225/acre
Direct Expense % of Income	20% - 30%

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

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ALFALFA
Target Yield - 5 MT/acre

Gross Margin
1 Acre of Alfalfa
Production Years

Total Income

	Yield	Price	Unit	Income
Alfalfa Hay	5	$30	tonne	$150

Direct Expenses

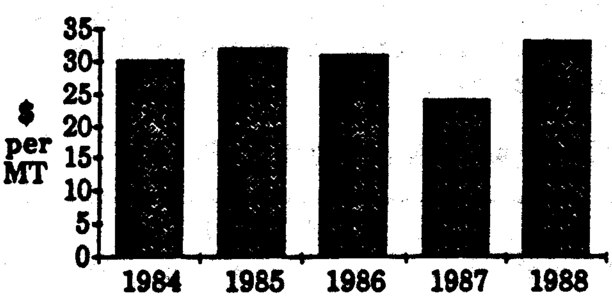
	Quantity	Price	Unit	Expense
Fertilizers				
8 - 21 - 21	115	.33	kg	37
Custom Work				
Fertilizer Application				4
Total Direct Expenses				**$41**

Gross Margin **$109**

Buildings and Machinery
Replacement Cost
Total Farm Size – 500 Acres
Alfalfa Establishment - 70 Acres

Buildings	$27,300
Power Machinery	46,100
Field Machinery	17,500
Miscellanous	21,600
Total	$112,500

Dehydrated
Alfalfa Prices



Gross Margin – Sensitivity Analysis

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

PRICE	Yield Tonnes Per Acre			
$/tonne	4.0	4.5	5.0	6.0
25	59	72	84	109
28	71	85	99	127
30	79	94	$\boxed{109}$	139
33	91	108	124	157

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 B. C. Ministry of Agriculture and Fisheries.