



# PLANNING FOR PROFIT



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

Alfalfa - Establishment Year  
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 <sup>1</sup>
Quantity	1.5 - 2.0 Tonne/ac <sup>2</sup>
Price	\$32/Tonne <sup>3</sup>
Life of Stand	- 1yr establishment - 3-4 years production

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.

<sup>1</sup> at 60% moisture content

<sup>2</sup> at 8% moisture content

<sup>3</sup> a \$2/T bonus is paid on establishment year alfalfa

## 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	35	10			15	15	15			10		

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
Income % of Direct Expense	40% - 50%

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 - 1.8 MT/acre

### Gross Margin 1 Acre of Alfalfa Establishment Year

#### Total Income

	Yield	Price	Unit	Income
Alfalfa Hay	1.8	\$32	tonne	\$57

#### Direct Expenses

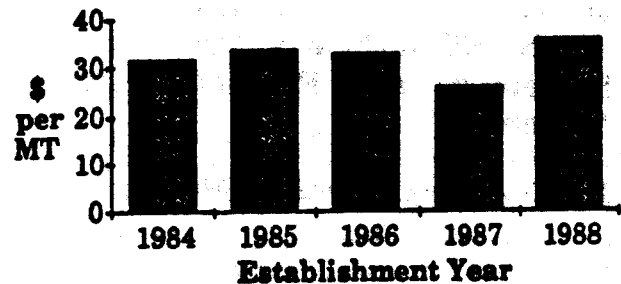
	Quantity	Price	Unit	Expense
<b>Seed</b>				
Trumpetor	5	\$3.50	kg	\$18
<b>Fertilizers</b>				
8-21-21	115	.33	kg	37
<b>Herbicide</b>				
Eptam	1.7	8.00	litre	14
Roundup*	2	14.50	litre	29
Fuel Costs				24
Machine Repair & Maintenance				25
<b>Total Direct Expenses</b>				<b>\$147</b>
<b>Gross Margin</b>				<b>(\$90)</b>

\*If quackgrass is a problem

### Buildings and Machinery Replacement Cost Total Farm Size - 500 Acres Alfalfa Establishment - 30 Acres

Buildings	\$27,300
Power Machinery	46,100
Field Machinery	17,500
Miscellaneous	<u>21,600</u>
<b>Total</b>	<b>\$112,500</b>

### 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 \$/tonne	Yield Tonnes Per Acre			
	1.2	1.5	1.8	2.0
25	(117)	(110)	(102)	(97)
30	(111)	(102)	(93)	(87)
32	(109)	(99)	<u>(90)</u>	(83)
36	(104)	(93)	(82)	(75)

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.