



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

**Timothy Establishment
Underseeded to Wheat
Creston
Summer 1994**

Agdex 120 - 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 Budget**.

Key Factors Affecting Profit

	Target
Wheat Yield	1.4 MT/acre (50 bu/acre)
Wheat Price	\$150-160/MT (\$4.30/bu)

Yields are affected by proper and timely fertilizer application. Wheat is grown to provide income during the establishment year and to help control weeds. Timothy does not yield a seed crop in the first year.

Marketing Alternatives

Timothy for seed is grown primarily for the Japanese market and is contracted through U.S. seed dealers. Contracts are normally for four years. Contracts guarantee acceptance of production only, not price. Prices are set at the time of delivery. Creston's Hard Red Spring Wheat is generally marketed in the U.S. Premiums are available for high protein wheat.

Cashflow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc												100
%Exp				65		15		20				

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

Machinery Investment	<\$1,100/acre
Direct Expenses % of Income	50 - 60%

The above indicators are provided for comparison purposes. They are set out as potential targets for timothy establishment.

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TIMOTHY ESTABLISHMENT

Wheat Target Yield - 1.4 MT/Acre

Contribution Margin 1 Acre of Timothy Underseeded to Wheat in Creston

Total Income

	Yield	Price	Unit	Income
Wheat	1.4	\$158.00	MT	\$221.20
	(50)	\$4.30	bushel)	

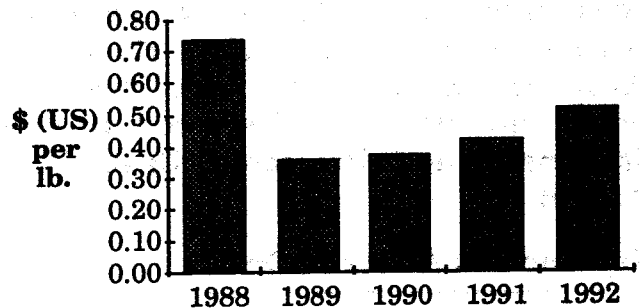
Direct Expenses

	Quantity	Price	Unit	Expense
Crop Supplies				
Wheat Seed	100	\$.12	lb.	\$12.00
Timothy Seed	4	5.00	lb.	20.00
Fertilizer				
16-16-16-6	100	.15	lb.	14.55
46-0-0	150	.11	kg	17.05
Pest Control				
Roundup (2X)	1.5	12.50	litre	37.50
Avenge	1.42	11.50	litre	16.35
Buctril M	.405	17.68	litre	7.15
Lorsban	.325	16.98	litre	5.50
Fuel, Oil & Lube				31.35
Equipment Repair & Maintenance				43.10
Custom Application (Lorsban)				6.00
Total Direct Expenses				\$210.55
Contribution Margin				\$10.65

Buildings & Machinery Replacement Cost Total Farm Size - 400 Acres Timothy Acreage - 100 Acres

Machinery Shed	\$15,000
Power Machinery	100,000
Field Machinery	77,000
Harvesting Machinery	120,800
Small Tools and Other	5,000
Vehicles	<u>98,000</u>
Total	\$415,800

Timothy Prices



Contribution Margin - Sensitivity Analysis

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

Price \$/ton	Yield MT per Acre				
	.8	1.0	1.2	1.4	1.6
90.00	(139)	(121)	(103)	(85)	(67)
110.00	(123)	(101)	(79)	(57)	(35)
130.00	(107)	(81)	(55)	(29)	(3)
158.00	(84)	(53)	(21)	<u>11</u>	42
170.00	(75)	(41)	(7)	27	61

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, Fisheries and Food.