



PLANNING FOR PROFIT



BRITISH COLUMBIA

Ministry of Agriculture and Food

**Canola on Fallow
Peace River
Spring 1998**

Agdex 149 - 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
Yield	27 bu/acre
Price	\$8.50/bu

Yields are affected by cultural practices including adequate and balanced fertilizer application and proper and timely weed control.

Timeliness of cultivation and seeding operations helps to conserve soil structure and moisture while good quality seed, variety selection for early maturity and high yield potential combine to maximize yields.

Profitability is improved by utilizing good storage facilities to prevent spoilage.

Marketing Alternatives

The marketing of canola does not come under the auspices of the Canadian Wheat Board. The crop can be sold to local crushing plants, local elevators or grain dealers using a forward contract or on the cash market. This year's anticipated market price for #1 canola is \$8.50/bu. Hedging opportunities are also available for this crop.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc	25*	20*	10*	5*							25	15
%Exp		10	20	20	20				20	10		

The above information indicates the timing of monthly flow of funds included in the **Contributory Margin** only. A complete **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans and personal expenses. *Denotes payment made for last year's crop.

Rules of Thumb

Bldg. & Equip. Investment	\$200 - \$300/acre
Direct Expense % of Income	40% - 70%

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

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CANOLA (FALLOW)

Target Yield - 27 bu/acre

Contribution Margin 1 Acre of #1 Canola Peace River

Total Income

	Yield	Price	Unit	Income
Canola	27	\$8.50	bu	\$229.50

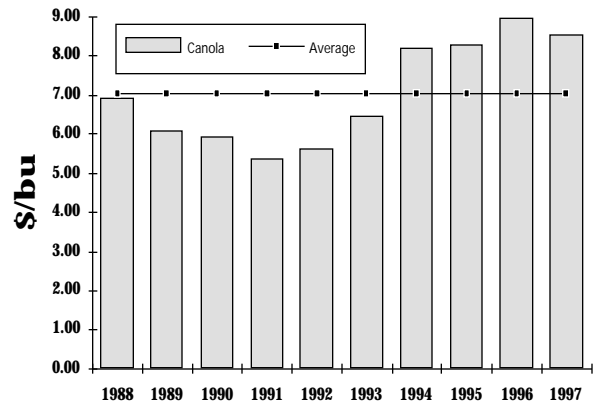
Direct Expenses

	Quantity	Price	Unit	Expense
<u>Seed</u>				
Certified	10	\$2.35	lb	\$23.50
<u>Fertilizers</u>				
46 - 0 - 0	80	0.16	lb	12.55
12 - 51 - 0	70	0.20	lb	14.00
0 - 0 - 62	30	0.10	lb	2.86
20 - 0 - 0 - 24	45	0.12	lb	5.40
<u>Herbicide</u>				
Poast	0.445	35.96	L	16.00
Fuel Costs				10.60
Machine R & M				9.00
Trucking				1.70
Crop Insurance				8.78
Building R & M				1.25
Total Direct Expenses				\$105.64
Contribution Margin				\$123.86

Buildings and Machinery Replacement Cost Total Farm Size - 2,500 Acres

Buildings	\$125,000
Power Machinery	325,000
Field Machinery	175,000
Tools	<u>25,000</u>
Total	\$650,000

Canola Prices



Contribution Margin - Sensitivity Analysis

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

PRICE \$/bu	Yield Bushels Per Acre			
	22	27	32	37
5.50	15.36	42.86	70.36	97.86
6.50	37.36	69.86	102.36	134.86
7.50	59.36	96.86	134.36	171.86
8.50	81.36	123.86	166.36	208.86
9.50	103.36	150.86	198.36	245.86

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 Food.