



# PLANNING FOR PROFIT



BRITISH COLUMBIA

Ministry of Agriculture and Food

## Wheat on Fallow Peace River Spring 1998

Agdex 112 - 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	45 bu/acre
Price	\$2.85/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

Export grain sales are handled by the Canadian Wheat Board and prices are pooled. Producers receive an initial payment and receive final payment after the crop year. Additional options exist for feed wheat which can be marketed either to the C.W.B. or directly to elevator companies. Prices can be set at time of sale, by contracts or with commodity futures contracts. This year's anticipated market price for #3CWRS is \$2.85/bu.

### Cash Flow Timing

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

(Fall Fertilization)

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. \*Denotes payment made for previous year's crop.

### Rules of Thumb

Bldg. & Equip. Investment	\$200 - \$300/acre
Direct Expense % of Income	50% - 75%

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

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# WHEAT (FALLOW)

## Target Yield - 45 bu/acre

### Contribution Margin 1 Acre of #3 CWRS Wheat Peace River

#### Total Income

	Yield	Price	Unit	Income
Wheat	45	\$2.85	bu	\$128.25

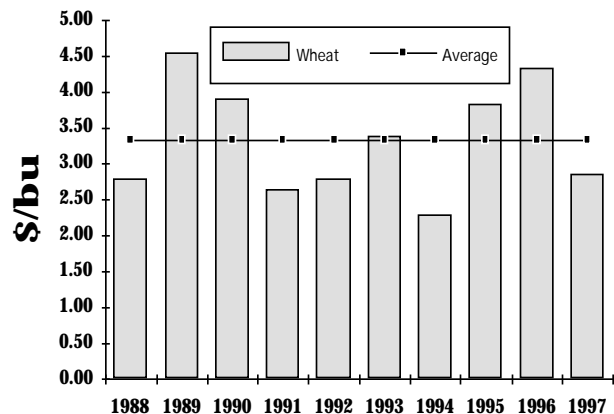
#### Direct Expenses

	Quantity	Price	Unit	Expense
<b>Seed</b>				
Certified	120	\$0.10	lb	\$12.50
Vitavax	0.11	21.80	L	2.40
<b>Fertilizers</b>				
46 - 0 - 0	90	0.16	lb	14.11
12 - 51 - 0	70	0.20	lb	14.00
0 - 0 - 62	30	0.10	lb	2.86
<b>Herbicide</b>				
Avadex granular	6.9	2.38	kg	16.39
2,4-D amine	0.45	4.80	L	2.16
Fuel Costs				10.60
Machine R & M				9.00
Trucking				2.00
Crop Insurance				7.42
Building R & M				1.25
<b>Total Direct Expenses</b>				<b>\$94.70</b>
<b>Contribution Margin</b>				<b>\$33.55</b>

### 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>
<b>Total</b>	<b>\$650,000</b>

### Wheat 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/Acre			
	25	35	45	55
<b>2.85</b>	(23.45)	5.05	<b>33.55</b>	62.05
<b>3.35</b>	(10.95)	22.55	56.05	89.55
<b>3.85</b>	1.55	40.05	78.55	117.05
<b>4.35</b>	14.05	57.55	101.05	144.55
<b>4.85</b>	26.55	75.05	123.55	172.05

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.