



PLANNING FOR PROFIT



BRITISH COLUMBIA

Ministry of Agriculture and Food

Early Potatoes Fraser Valley Summer 1998

Agdex 161-810

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
Quantity	5 tons/acre
Grade# 1	100 %

Margins improve with higher yields, better grades and early production. Certified seed should be used to improve both yield and grade. Row cover materials can be used to achieve earlier production. An integrated pest management (IPM) program can minimize pesticide use and costs.

A "Vegetable Production Guide for Commercial Growers 1997/1998 Edition" is available from the Lower Mainland Horticulture Improvement Association, Abbotsford, (phone 604-556-3001)

Marketing Alternatives

Potatoes are produced in southern B.C. under a delivery quota system which is controlled by the B.C. Vegetable Marketing Commission. The majority of production in the Lower Mainland is marketed through the Lower Mainland Vegetable Distributors Inc. and the Cloverdale Lettuce and Vegetable Co-op. Early (or new) potatoes are harvested before the end of July. Prices usually peak early in the season and then decline into the summer months as imported and local main season potatoes arrive in the market.

Cashflow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc							40	30	20	10		
%Exp		25	25	10	20	10	10					

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

Investment	\$3,500 - \$5,500/acre
Labour	16 hrs/acre
Direct Expense as % of Income	35% - 45%

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

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EARLY POTATOES

Target Yield - 5 tons/acre

Summer 1998

Contribution Margin 1 Acre of Early Potatoes Fraser Valley

Total Income

	Yield	Price	Unit	Income
Early Potato	5.0			
Nuggets	3.7	\$1,120	ton	\$4,144
Standards	1.3	\$ 400	ton	520

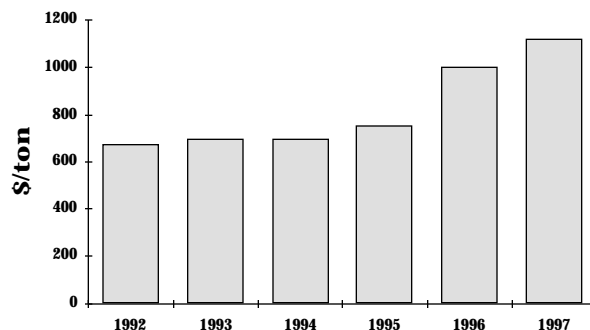
Direct Expenses

	Quantity	Price	Unit	Expense
<u>Crop Supplies and Service</u>				
Seed	1	\$260	ton	\$260
Cover Crop				6
Seed Treatment	1	44.18	ton	44
<u>Fertilizer</u>				
Custom	0.45	477	MT	215
<u>Crop Protection</u>				
IPM				19
Cymbush	0.06	87.33	L	5
Ambush	0.07	160.20	kg	11
Acrobat (1X)	1.00	37.90	L	38
Dithane (2X)	0.68	11.70	L	16
Bravo	0.75	16.25	L	12
Gramoxone	1	23.77	kg	24
Lorox	1.36	38.16	kg	52
<u>Marketing</u>				
Warehousing Charge	5	13	ton	65
Washing, Grading	5	70	ton	350
Packaging	5	90	ton	450
Marketing Charge	5	12	ton	60
Commission Fees	5	5	ton	25
Hired Labour	13	10	hr	130
Fuel, Oil & Lube				64
Repairs & Maintenance				240
Crop Insurance				50
Total Direct Expenses				\$2,136
Contribution Margin				\$2,528

Buildings and Machinery Replacement Costs Total Farm Size - 100 acre

Buildings	\$ 65,000
Power Machinery	223,750
Field Machinery	48,200
Handling Equipment	62,500
Irrigation & Drainage	95,000
Vehicles	40,000
Small Tools, Fuel Tanks & Other	18,500
Total	\$552,950

Early Potato Prices



Contribution Margin - Sensitivity Analysis

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

Price (Nuggets) \$/ton	Yield (tons/acre)			
	3	4	5	6
700	-7	386	779	1,172
800	243	719	1,195	1,672
900	493	1,052	1,612	2,171
1120	1,042	1,785	2,528	3,271
1200	1,242	2,052	2,861	3,671

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.