



PLANNING FOR PROFIT



BRITISH COLUMBIA
Ministry of Agriculture
and Food

**Red 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	11 tons/acre
Grade #1	100%

Yield and quality of the product are affected by cultural practices, planting and harvest timing, harvest practices and storage conditions. Certified seed should be used to improve both yield and grade. 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. Properly stored potatoes can be marketed through to the next early crop season.

Cashflow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc	5						10	30	20	10	10	10
%Exp			25	20	5	5	10	20	5	5	5	

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 % of Income	60% - 70%

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

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RED POTATOES

Target Yield - 11 tons/acre

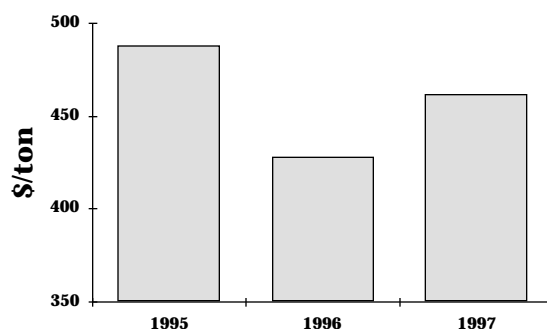
Contribution Margin 1 Acre of Red Potatoes Fraser Valley

Total Income				
	Yield	Price	Unit	Income
Red Potatoes	11	\$462	ton	\$5,082
Direct Expenses				
	Quantity	Price	Unit	Expense
<u>Crop Supplies and Service</u>				
Seed	0.9	\$360	ton	\$324
Cover Crop				6
Seed Treatment	0.9	44.18	ton	40
<u>Fertilizer</u>				
Custom	0.45	477	ton	215
<u>Crop Protection</u>				
IPM				39
Gramoxone	1	23.77	L	24
Lorox	1.36	38.16	kg	52
Ambush	0.07	160.20	L	11
Cymbush	0.06	87.33	L	5
Pirimor	0.20	103.33	kg	21
Acrobat (2X)	1	37.90	kg	76
Dithane (3X)	0.68	11.70	kg	24
Bravo (3X)	0.75	16.25	L	37
Ridomil (2X)	1	8.64	kg	17
Topkill	1.25	29.20	L	37
<u>Marketing</u>				
Warehouse Charge	11	13	ton	143
Washing/Grading	11	50	ton	550
Packaging	11	80	ton	880
Marketing Charge	11	12	ton	132
Commission Fees	11	5	ton	55
Hired Labour	11	10	hr	110
Fuel, Oil & Lube				74
Repairs & Maintenance				153
Crop Insurance				50
Storage (if applicable)	10	25	ton	275
Total Direct Expenses				\$3,350
Contribution Margin/acre				\$1,732

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	<u>18,500</u>
Total	\$552,950

Red 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 \$/ton	Yield (tons/acre)			
	9	10	11	12
400	620	835	1,050	1,265
430	890	1,135	1,380	1,625
462	1,178	1,455	1,732	2,009
490	1,430	1,735	2,040	2,345
520	1,700	2,035	2,370	2,705

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.