



PLANNING FOR PROFIT



BRITISH COLUMBIA Ministry of Agriculture and Food

Russet 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	15 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. Russets may be packaged and sold to the fresh table market or they may be sold in bulk truck loads to processors. 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	5	5					20	20	20	10	10
%Exp					35	10	5	10	20	10	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	75% - 85%

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

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RUSSET POTATOES

Target Yield - 14 tons/acre

Summer 1998

Contribution Margin 1 Acre of Russet Potatoes Fraser Valley

Total Income

Yield	Price	Unit	Income
14	\$300	ton	\$4,200

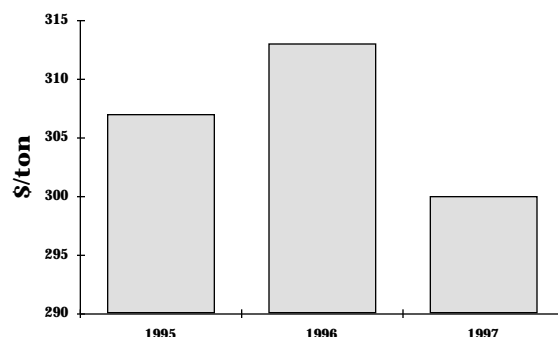
Direct Expenses

Expense	Quantity	Price	Unit	
<u>Crop Supplies and Service</u>				
Seed	0.9	\$260	ton	\$234
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	14	13	ton	182
Washing/Grading	14	30	ton	420
Packaging	14	75	ton	1,050
Marketing Charge	14	12	ton	168
Commission Fees	14	5	ton	70
Hired Labour	14	10	hr	110
Fuel, Oil & Lube				74
Repairs & Maintenance				217
Crop Insurance				50
Storage (if applicable)	14	25	ton	350
Total Direct Expenses				\$3,529
Contribution Margin/acre				\$671

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

Russet 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)			
	12	13	14	15
280	151	271	391	511
290	271	401	531	661
300	391	531	671	811
310	511	661	811	961
320	631	791	951	1,111

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.