# Building Economic Viability into your Farm







Cindy Fake, Horticulture & Small Farms Advisor University of California Cooperative Extension Placer & Nevada Counties

## **Business Planning**

Need to work in the business –
 planning, producing, selling crops

 Also need to work on the business: economic analysis, cash flow planning, operations planning, risk management, etc.

- Set aside time weekly, monthly, and yearly to work on the business
- Develop a decision-making protocol, especially for expenses

## Long term planning

- Plan for the arc of your business –
   plan for change over time
- Build a brand that will last
- Plan for viability: the farm will not be viable if the farmer is not viable
  - Plan for your (the owner's) salary what do you need to cover your costs of living?
  - Not enough to just be a laborer and take what is left over at the end of the year.
  - You need both profit and salary



#### **Profit**

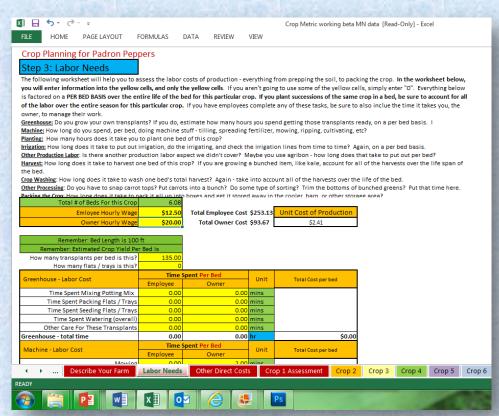
Profit is the business's salary – over & above direct costs and overheads (including owner salary!)

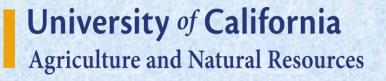
- Plan for profit –
   assess crop economics
- Uses of profit
  - In 5 years, need to replace equipment, plan to use your profit to finance it
  - Contingency/rainy day (or drought) fundrisk management strategy
  - Vacation
  - Long-term equity building



## Recordkeeping

- Build recordkeeping into everything you do - so the information is available when you need to make decisions
- But, only keep records that you use – reevaluate after a year





## Recordkeeping

- Simple record keeping in crop planning: amount of kale planted, picked, how many people picked, how long it took to pick and pack, how much sold, cost of materials
- Assess the profitability of the crop from that information
- Forecast sales from previous year's records & market research – markets change!
- In crop planning, add planting safety factor (e.g. 20%) to be sure you meet target sales

## **Economic Analysis**

- · Begin with the end in mind
- Know the details for accurate picture. If you don't know details, projections are probably overly optimistic.



- Analyzing expense & sales records tells you:
  - Gross sales needed to make the salary and profit targets.
  - e.g. To make median household income here (\$34,000),
     probably need \$120-150,000 gross sales
  - Profitability of each individual crop. If it's not profitable, why are you growing it?
  - Price points, which are critical for wholesale as your margin will be small.
     University of California
     Agriculture and Natural Resources

## **Economic Analysis**

- Analysis requires numbers for:
  - Direct costs for each crop: Costs
     that change as the amount of
     production changes: fertilizer
     and other inputs, water, labor
     directly attributable to crop
     production (variable costs)
  - Overheads: costs that occur at roughly the same level regardless of how much is produced.









## Economic Analysis: Overheads

#### Three types of overheads:

- Land costs (rent, property taxes, etc.)
- Labor-related overheads: salaries for management and marketing, taxes, vehicle costs, insurance, depreciation, repairs, and fuel costs of machinery and vehicles.
- But: hired crop labor (weeding, harvesting, etc.) is a direct cost as it increases with acreage or the number of crops.
- Administrative overheads include utilities, office supplies, business computer, phone.

  University of California

Agriculture and Natural Resources

Crop analysis example			
Crop 1: potatoes		Crop 2: melons	
Direct Crop Expense	\$8,831.44	Direct Crop Expense	\$562.28
Total Crop Income	\$16,380.00	Crop Income	\$6,600.00
Crop Profit	\$7,548.56	Crop Profit	\$6,037.72
Profit Margin	46%	Profit Margin	91%
Direct Cost per Unit	\$0.63	Direct Cost per Unit	\$0.34
Unit of Production	lbs	Unit of Production	ea
Allocated Overhead + Profit	\$19,299.52	Allocated Overhead + Profit	\$1,228.77
Total Cost Per Unit	\$2.01	Total Cost Per Unit	\$1.09
Profit per Bed Foot	\$0.97	Profit per Bed Foot	\$10.98
Direct Cost per Bed Foot	\$1.14	Direct Cost per Bed Foot	\$1.02
Looking at Labor for potatoes		Looking at Labor for: melons	
Total Employee hours	0.0	Total Employee hours	0.0
Total Owner hours	298.9	Total Owner hours	15.1
Return per Person hour	\$25.25	Return Per Person Hour	\$399.63
Total Crop Labor Expense	\$5,978.11	Total Crop Labor Expense	\$302.17
Labor as % of Crop Expense	68%	Labor as % of Total Expenses	54%
Looking at Sales Price for potatoes		Looking at Sales Price for: melons	
Average Sales Price	\$1.17	Average Sales Price	\$4.00

## Budgeting & Cash Management

- Develop an annual budget each winter using monthly expenses from the previous season.
- Enter expenses & sales weekly so up-to-date
- Track expenses and sales against your budget accountant can do that
- Monthly finance meeting to look at where you are, compare to previous year. (Maybe not in busy season, but as often as possible).
- Making changes such as bringing costs down depends on analyzing where you are.

## Cash flow Planning

- · Yearly gap when have no sales, need to manage cash
- Seasonal start-up costs
  - save for by planning cash flow
  - Or consider operating loans, but need to be able to service the debt in a timely manner
- · Do not chase cash trying to stay ahead
  - i.e. attend too many \$250 farmers' markets or
  - sell below cost just to have operating cash
  - this means knowing your numbers to set prices and understand costs of marketing



## Capital purchases/Expenses

- Prioritize capital purchases: Plan to buy only what will make you money (not what is bright and shiny or a great deal!).
- Calculate how much time or money you will gain from the purchase, then make the decision.





## Capital purchases/Expenses

- Weigh whether to invest in what is new(er) instead of used, which may have to be fixed sooner.
- Consider the impact if it breaks in peak season.
- What will the downtime cost you? esp. if your product is perishable.





## Capital Purchases and Expenses

- Look at the true cost of the purchase: a tractor alone does nothing for you, you need the implements; and you need to include the costs of fuel, maintenance, and depreciation.
- Trim the fat everywhere. Buy in bulk (coop with other growers) which saves time & money.







#### Start with the end in mind...

#### You'll get there if you

- Celebrate and learn from your successes!
- Learn to like
   recordkeeping and
   economic analysis. Your
   records will illuminate the
   best parts of your business.



#### Thanks to my colleagues and partners in this work:

Roger Ingram

Livestock and Natural Resources Advisor, UCCE

Carol Arnold

CEO, PlacerGrown and Foothill Farmers' Markets

Allen Edwards

Feral Economist and Owner, Edwards Family Farm

Dan Macon

Assistant Specialist, Plant Sciences, UC Davis, Flying Mule Farm

Jim Muck

Community Education Specialist, UCCE and Owner, Jim's Produce

Molly Nakahara

Community Education Specialist, UCCE, and Owner, Dinner Bell Farm

Thank you!

