Veggie Compass: A Tool for Whole Farm Profit Management

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http://www.extension.org/organic_production

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Veggie Compass

A Tool for Whole Farm Profit Management

Challenge of Determining Pricing and Achieving Profitability on Diversified Vegetable Farms

- Multiple products (sometimes 30 or more!)
- Each product has multiple customers, competitive markets, and costs
  - Vegetable grower can sell through CSA, farmers' market, institutions, restaurants, wholesale
  - Range of prices at which the product could be sold and different costs associated with transferring the product to the customer

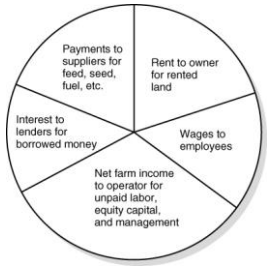
How do you set prices?

- Competition?
- Profits?
- Customers?
  - One farmer's market producer believes if you don't have a percentage of potential customers walk away from your table, your price is too low (Adam et al, 1999)

Cost-Based Pricing: Greater Profits?

- Costs need to be determined to ensure that products are being sold for a profit
- Need to evaluate each crop in each market channel
- Budgets need to include all costs of production (in-season and harvest) as well as transaction costs (postharvest and marketing) to get the product from the farm or business to the customer

Where are our costs?



*hilo.hawaii.edu/~sabry/files/AgEc%20330/.../Chapter%2018.**ppt***

Variable vs. Fixed Costs

- Variable Costs
  - These costs exist only if production occurs.
  - E.g., fuel for tractor, seed, etc.
- Fixed Costs
  - These cost exist whether production occurs or not.
  - In the long-run there are no fixed costs.
  - Can be both cash and non-cash expenses.
  - E.g., depreciation on tractors and buildings, etc.

*www.agb.calpoly.edu/shurley/agb322/agbus-322-lec5-sp04.**ppt***

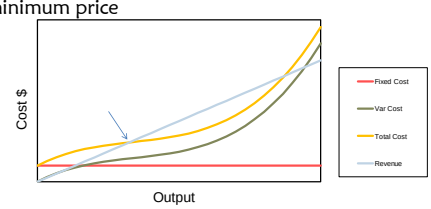
Total Costs

- Total Fixed Costs (TFC)
  - The summation of all fixed costs to production.
- Total Variable Costs (TVC)
  - The summation of all variable costs to production.
- Total Costs (TC)
  - The summation of total fixed and total variable costs.
  - TC=TFC+TVC

*www.agb.calpoly.edu/shurley/agb322/agbus-322-lec5-sp04.**ppt***

Break-even prices

- Production and transaction (post-harvest and marketing) costs combined should establish a floor or minimum price

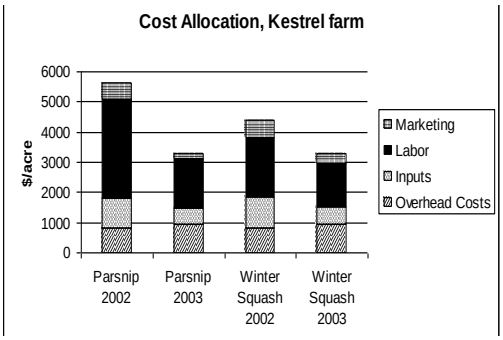


- A desired profit goal needs to be added to the floor price to allow for an economic return to management

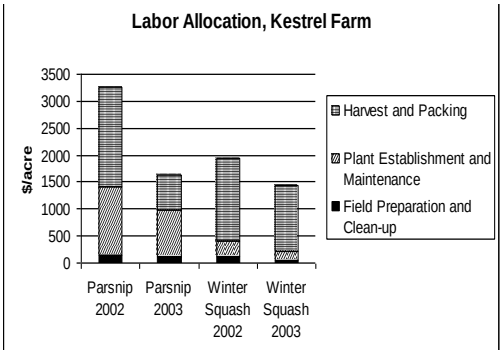
Where are the farms' expenses?

- Overhead costs
- Inputs
- Labor
- Marketing

- Vary depending on crop and market channel



Stoner, 2005



Stoner, 2005

Survey of Organic Vegetable Farmers

- Farms that are satisfied with their current farm record keeping system tend to be very satisfied or satisfied with their profitability!

Veggie Compass Project History

- 2006 - Jim Munsch, an Organic Beef Farmer in Coon Valley, WI teamed up with UW-Madison to develop a **user friendly** cost accounting spreadsheet for vegetable growers.
- 2007 - UW team held regular meetings with a committee of farmers to discuss limitations to farm business planning.
- 2008 - Developed 2 types of labor data forms to help growers track labor costs.

Veggie Compass Project History

- 2009 - 2012
  - Gathered farm labor data from 10 farms
  - Launched the website
  - Simplified the Veggie Compass Spreadsheet
  - Gathered farm labor data from 9-12 farms/season
  - Two farms are in 2nd year of beta testing the spreadsheet
  - Compiling labor values by crop from farm data
  - Refinement of the Veggie Compass spreadsheet & materials & available to the public

Free download www.veggiecompass.com

What is Veggie Compass?

- Veggie Compass is a financial spreadsheet
- Intended for diversified fresh market vegetable growers
- Organizes cost and sales data
- Generates cost of production for each crop & profitability of each market channel

Veggie Compass Goals:

To improve profitability for fresh market vegetable farmers

- Helping to better understand cost of production by crop
- Improving overall farm management and planning practices
- Strengthening risk management capabilities

The Spreadsheet

Organization:

- Captures input data on 3 separate pages
- All expenses are categorized on 1 page
- Sales are entered on the 2nd page
- Labor hours by crop is entered on the 3rd page
- Generates a farm financial picture on 3 pages
  - Cost of production by crop
  - Cost of production by crop in each market channel & break even prices – Sales Output Page
  - Profit & loss by Market Channel

Veggie Compass

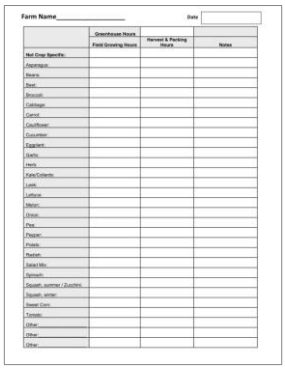
Inputs

- Farm Expenses
- Farm Sales
- Growing area of each crop
- Crop specific expenses
- # of plants in GH
- Hours by crop - field growing, harvest & packing
- NCS hours

Outputs

- The cost of a crop up to harvest
- Total cost of a crop through harvest & packing
- Cost $/lb by crop
- Break even prices
- Total labor costs by crop
- Gross margin by market channel

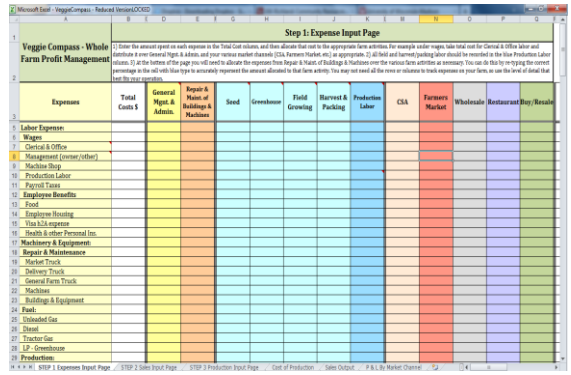
Labor Forms



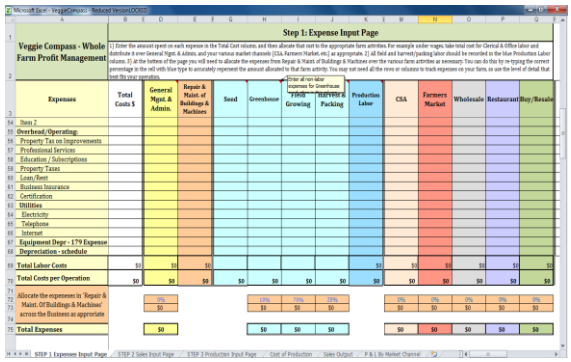
Long Form – Captures production labor for 1 day on 1 sheet

Short Form – Captures production labor by task, so workers may fill out many sheets in 1 day

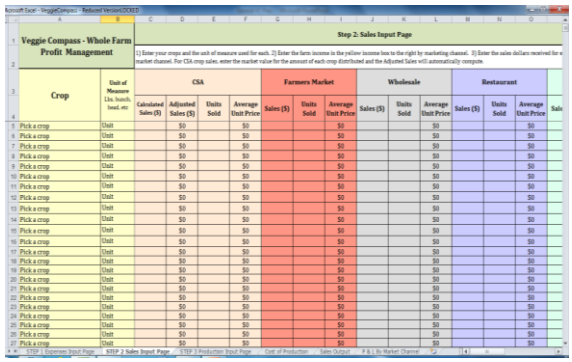
Input: Step 1



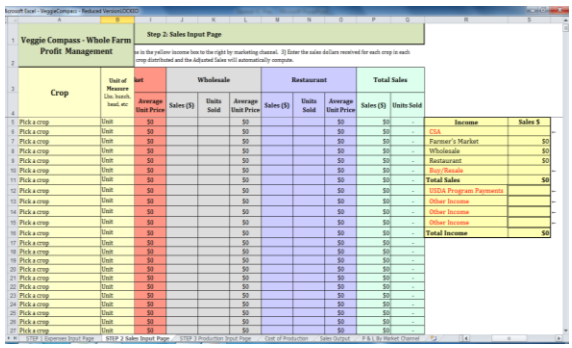
Input: Step 1



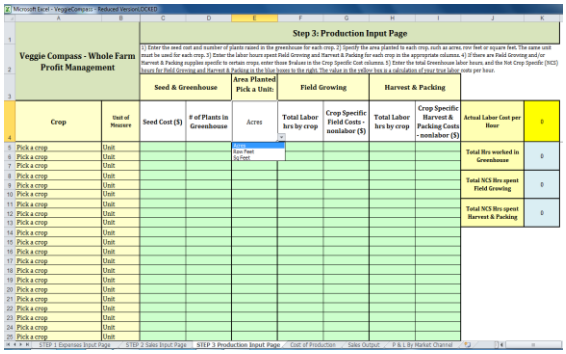
Input: Step 2



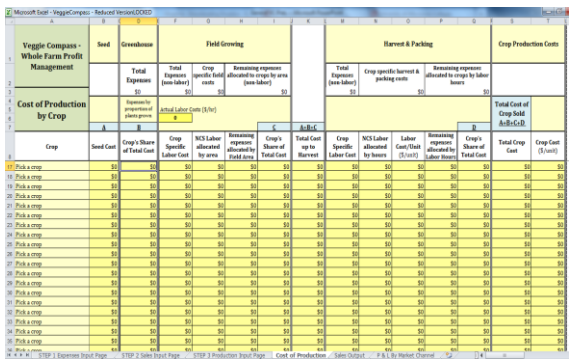
Input: Step 2



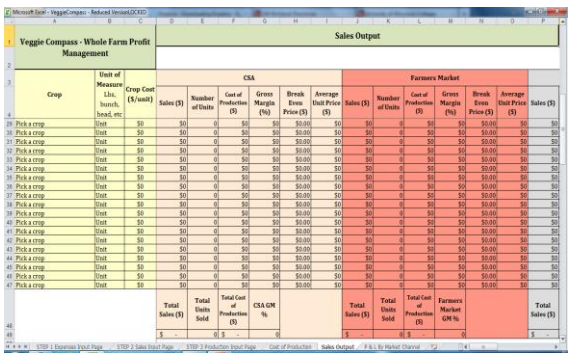
Input: Step 3



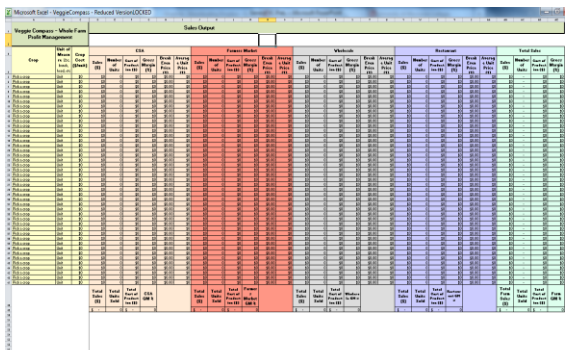
Output: Cost of Production



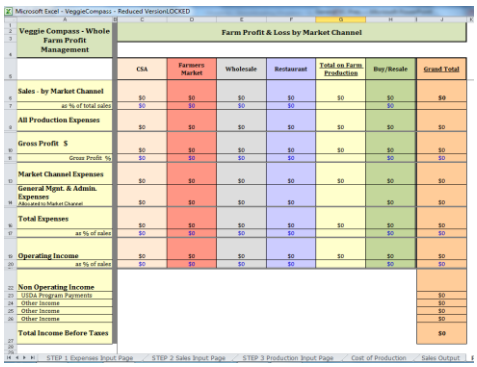
Output: Sales



Output: Sales



Output: Profit & Loss



Veggie Compass

Overview of what it tells you. . .

- Tracks cost of production by crop within each market channel
- Pricing produce at farmer's market, wholesale, CSA, retail, restaurants
- Compare crop profitability
- Decision making: Which crops to grow, and how much to grow of each crop, and where to sell them
- Locate farmer's efficiencies and inefficiencies

Decisions to Impact Profitability

- Setting prices
- Deciding what to plant
- Deciding how much of each crop to plant
- Deciding if a crop should be harvested or not
- Deciding level of mechanization
- Make/grow versus buy decisions
- Deciding whether to expand by renting or buying land
- Deciding what market segment to pursue

- *Veggie Compass helps farms manage these decisions*

By knowing information on sales, profitability, and unique expenses by market channel, growers can make the following decisions:

- Should we emphasize one channel?
- Should we plant more for a channel?
- What about prices in a channel?
- Can we mitigate a unique expense by outsourcing?
- Should we vacate a channel?

Veggie Compass is a tool that provides diversified vegetable farms with the knowledge to perform cost-based pricing!

Additional Materials

- Visit the Veggie Compass website
  - www.veggiecompass.com
- Spreadsheet 2.0v
- Labor forms
- Management forms
  - Weekly CSA box chart
  - Weekly Sales chart
  - Farmers Market Sales Chart

Thank You!

Questions. . .

For more information contact:

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www.veggiecompass.com

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