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 (inseason 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

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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





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





- · 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
- For specific expenses # of plants in GH Hours by crop field growing, harvest & packing NCS hours

Farm Expenses

Growing area of each crop

Farm Sales

Inputs

- · 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 2

1	Veggie Compass - Wi	ole Farm							Step 2	: Sales Inp	ut Page					
	Profit Manager	1) Enter your crops and the unit of measure sumd for each. 3) Enter the farm incomes in the yellow income box to the right by marketing channel. 3) Enter the name dollars received in- market channel. For CSA crops takes, enter the market value for the amount of each crop distributed and the Adjusted Enter will automatically compute.														
3	Сгор	Unit of Measure Lbs. bunch, head. etc	CSA				Farmers Market			Wholesale			Restaurant			
			Calculated Sales (S)	Adjusted Sales (S)	Units Sold	Average Unit Price	Sales (S)	Units Sold	Average Unit Price	Sales (S)	Units Sold	Average Unit Price	Sales (S)	Units Sold	Average Unit Price	s
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2	Pick a crop STEP 1 Exercises Insuit Page	Unit STEP 2 Sal		\$0	Production 3	\$0			\$0			\$0			\$0	

Input: Step 2



Input: Step 3



Output: Cost of Production

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_'	Management		Total Expenses S0	Total Expenses (non-labor)	Crop specific field casts	allocated to crops by area (ass-labor)			Tetal Expresses (asa-labor)	nnes Crop specific harvest & allocated to crops by labor						
			Espenses by	~	~					_	10			Total Cest of		
Cost	t of Production by Crop		properties of plants proves	Artual Labor C	osts (\$/hr)						Crop Sold					
		Α					6	A+B+C	1		A+B+C+D					
	Crop	Seed Cost	Crop's Share of Total Cost	Crop Specific Labor Cost	NCS Labor allocated by area	Remaining expenses allocated by Field Area	Crup's Share of Total Cost	Total Cost up to Harvest	Crop Specific Labor Cost	NCS Labor allocated by hours	Labor Cost/Unit (5/unit)	Remaining expenses allocated by Labor Hours	Crop's Share of Total Cost	Total Crop Cost	Crop Cos (\$/unit)	
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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
 - <u>www.veggiecompass.com</u>
- Spreadsheet 2.0v
- Labor forms
- Management forms
 - Weekly CSA box chart
 - Weekly Sales chart
 - Farmers Market Sales Chart

Thank You!

Questions...

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