

Operate your farm as a business

so your lifestyle can become your living

Sustainable agriculture requires farmers to earn satisfying livings. The best way to assure this is to make some profit on everything you sell, and (more importantly) lose on nothing.

Knowing your Costs of Production is as important as knowing your weather forecast! They both help you make better decisions. A quick and easy way to estimate your costs is to **Follow the Rule of 45.**

Simply track how many units you can harvest and package in one hour. A fair selling price is something close to **\$45** divided by the number of units you prepared in the one hour. It's not perfect, but it immediately provides you with a reasonable start.



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Why \$45?

Of course no harvester actually earns \$45/hour. Let's assume you pay \$11.50 per hour for harvesting. To this you add about 4% CPP, 3% EI, 4% WSIB, 4% holidays, 4% vacation pay, 6% breaks (2 x 15 minutes per day), and perhaps 9% non-charged (slack) time. So in total, you are actually paying \$15.00 per hour.

For a typical 5-acre fruit and vegetable farm, Harvesting/Packing is by far the largest expense – \$60,000. The **Total Breakeven Income is 3-times the Harvesting/Packing Costs** – \$180,000. You can easily approximate the full costs of production by simply multiplying actual labour cost by three ($\$15 \times 3 = \45 .)

Template for a typical 5-acre market garden

ITEM	COST	ITEM	COST
Tractor operation	2,000	Insurance	1,000
Compost and amendments	2,000	Office (with bookkeeper)	5,000
Seeds, fruit plants, animals	4,000	Property taxes	1,000
Labour (planting, weeding)	9,000	Utilities	2,000
Irrigation operation	1,000	Professional (accountant)	2,000
Cleanup and Covercrop	1,000	Maintenance	5,000
Cost of Growing	\$19,000	Telephone	1,000
		Fixed Costs	\$17,000
Harvesting labour	50,000	Depreciation (\$100,000/10yrs)	10,000
Washing, Packing labour	10,000	Interest (6% x 100,000)	6,000
Packaging material	2,000	Mortgage or Rent	16,000
Cold room operation	1,000	Salary for Owner/Operator	35,000
Cost of Harvesting	\$63,000	Costs of Ownership	\$67,000
Marketing (web, tables, certification)	3,000	Total Annual Costs	\$176,000
Delivery van operation	7,000		
Cost of Selling	\$10,000	2% Profit Margin ($\$200,000 \times .02$)	4,000
Total Variable Costs	\$92,000	Total Breakeven Income	\$180,000

Depreciation is not a cash expense, but it is a real cost that should not to be ignored. You need to have this money saved for replacing worn-out equipment.

Interest is more than just what you are paying the bank. Also assume an interest cost on your personal investment tied up in perennials, receivables, equipment and inventory.

Mortgage or Rent could be more than just the amount you are paying each year. If you were given the farm by your parents or you enjoy an unusually low rent, it is only fair to fellow growers to assume fair-market-values for these.

The farm's **Owner/Operator** deserves a **Salary** for management, training, long-hours, investment, risk, and responsibility. You also need to be saving for emergencies, education, retirement, and maybe even a vacation. Don't sell yourself short.

Profit Margins in food businesses are notoriously low. Though small, *do not ignore them!*

Using this important tool helps you make more effective management decisions.

If you can harvest, wash and bundle 24 bunches of chard in one hour and sell them for \$3 per bunch, you are making money! ($\$3.00 - (\$45 / 24 \text{ or } \$1.88) = \$+1.12$).

There are several things you can do with this information.

You could:

1. Give your chard a more prime selling location
2. Lower your price
3. Offer larger bunches
4. Pick smaller more tender leaves
5. Assemble more attractive bunches
6. Add a recipe to encourage more purchases
7. Use this extra profit to pay off some debt

If you can harvest and pack 7 pounds of sugar snaps in one hour and sell them for \$5 per pound, you are losing money! ($\$5.00 - (\$45 / 7 \text{ or } \$6.43) = \-1.43).

You could:

1. Determine how to harvest them more quickly
2. Raise your price
3. Sell half-pounds for \$3.50
4. Be less selective of quality
5. Be more selective and raise your price even more
6. Sell sugar snaps only when they are easy to pick
7. Stop planting all sugar snaps

If your scale, equipment and expertise are insufficient to produce at the lowest cost, you could increase the value by **Building Your Brand**. This is an effective and perfectly acceptable way to receive higher prices.

You could:

1. Select the best tasting varieties – then offer your customers free samples
2. Beautifully present your produce so customers exclaim, “WOW!”
3. Wear a smile and share what a wonderful week you had on the farm
4. Clean, trim and pre-chill your produce so your customers won’t need to
5. Ask your customers why they prefer your produce – then promote this
6. Share your knowledge about your produce with interesting stories
7. Offer some heirloom, family favourite, or top-chef recipes



Photos courtesy of Laura Berman GreenFusePhotos.com

Start using this simple tool for your pricing and marketing decisions.

Your market garden may not be "typical", but something close to **45** is the end result for most mixed vegetable and fruit farms, whether one acre or twenty. So use this proven formula to get started.

Then start creating your Own Rule.

If this **Rule of 45** seems too high due to your efficient production or high volumes; or too low because of your small scale or exceptional care, please make adjustments. You may create a rule for each enterprise. Begin inserting your own costs and harvest times into the template to determine your own rule. Add more lines as needed. This is an important step in calculating the full cost of production for each of your crops.

Cost Sharing for determining your full Costs of Production is available.

Identifying full Costs of Production is a normal "best practice" for any business. One-time professional advice to assure accurate and meaningful calculations is customary for this important process. Our governments have become so convinced of the immediate benefits this will bring to our farmers that they are now offering significant Cost Sharing for utilizing professional advice through **Growing Your Farm Profits 2 (GYFP2)**. Following "best practices" will help to qualify your farm business for many generous **Capacity Building and Implementation Grants**.



Possibility grows here.

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We welcome your comments and ideas
to share with other market growers.

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