

# FARM FINANCIAL MANAGEMENT FOR FRUIT & VEGETABLE PRODUCERS

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# WHY?

- To put simply... you want to bring in more money than you spend (be profitable)
- Be sustainable
- You work too hard for you to not get a return from your operation

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- Can I afford to **expand**?
- Is my operation **efficient**?
- Which crops are making money?
- Which crops aren't and why?



# VARIABLE COST

- Directly tied to production – the more you produce the more you will spend.
- IF a producer is not currently operational, these expenses do not occur
- Examples
  - Transplants      Fertilizer
  - Labor              Packaging

# FIXED COSTS

- Not directly tied to production.
- These costs will exist even if a producer is not currently operational.
- Examples
  - Insurance
  - Taxes
  - Depreciation
  - Loan Payments

# INCOME ABOVE TOTAL COSTS

- Gross Receipts – Variable Costs – Fixed Costs = **Income Above Total Costs**
- Did you build wealth ?
- Producers may be able to have positive Income above Variable Costs, but negative Income above total costs. Producers in this situation should evaluate long term earning potential of the enterprise.

## FIXED COST EXAMPLE

- Made \$5,000 of income above variable cost
- 4 years x \$5,000 = \$20,000
- Have to replace your tractor after the 4<sup>th</sup> year
- Cost of tractor = \$20,000

# BUDGET TYPES

- Whole Farm Budgets
- Enterprise Budgets
- Partial Budgets
- Cash Flow Budgets



# BUDGETING

- Could think of budgeting in two ways:
  - I only have \$ - - amount of money available to me, how will I spend it?
  - I have sufficient resources, but I want to have a ballpark estimate of what this is going to cost me

# BUDGET EXAMPLE

Tomatoes: \$10,000

Peppers: \$5,000

Squash: \$4,000

Total: \$19,000

Variables / Inputs: \$19,000

/ 52 weeks

= \$365 weekly

/ 40 weeks

= \$475 weekly

/ 9 mos.

= \$2,111 mo.



# BUDGET EXAMPLE

**Break-even** Revenue

Variable Cost: \$19,000

Fixed Cost: \$3,550

Loans: \$750

Insurance: \$750

Depreciation, inflation, etc: 10% (\$2,050)

Total Cost = \$22,550

/ 52 weeks

= \$434 weekly

/ 40 weeks

= \$564 weekly

/ 9 mos.

= \$2,505 mo.



# LETTUCE EXAMPLE

Fixed Cost: \$10,000

Variable Cost: \$27,500

Total = \$37,500

Yield: 40,000 heads

$37,500 \text{ cost} / 40,000 \text{ heads} = \$.93$

breakeven

# MAKING ADJUSTMENTS

- To increase profit you can either increase revenue, decrease expense or both
- The most profitable producers are the ones able to make small changes in a number of categories
- 5% reduction in costs and 5% increase in revenue can make a big difference



# GOOD RECORD KEEPING IS KEY



- Keep track of documents  
Receipts, sales, assets, etc.  
Consider the amount of time you invest  
Don't forget business related travel, transportation
- Allocate costs to each individual enterprise
- Personal and business expenses must be separated

# PURPOSE OF RECORDS

- Provides detail for you to make decisions about your business
  - Questions
  - Increased analysis with several years of records
  - Veggie Compass / FINPACK Software
- Support what is on tax return
  - Is My Farm a **Hobby** or **Business**?
  - Profit 3 out of 5 years?
  - 9 points



# RECORD-KEEPING

IRS Pub. 583 - “..the law does not require any specific kind of records. You can choose any recordkeeping system suited to your business that clearly shows your income and expenses.”

- A record system should be:
  - 1. Simple and easy to understand
  - 2. Reliable, accurate, consistent and timely
  - 3. Based on the business
  - 4. Cost effective to implement and maintain

# RECORD-KEEPING

- In a records box you could have 3 primary folders: payments in, payments out, and bank statements.
- Folders labeled for time: Jan, Feb, March...  
2016, 2017, 2018...
- You should be able to reconcile the money in and out with what the bank statement says



# RECORD-KEEPING

- Enter into a record keeping system
  - Receipts fade over time – even one hot day in a car
- You're going to have totals for your expenses at the end
  - Seed, fertilizer, gasoline, utilities, insurance, etc.
- Expensify – [www.expensify.com](http://www.expensify.com)
- Excel Spreadsheet – Cornell
- Quickbooks – Online / Desktop

# MARKETING

- No money made in growing fruits & vegetables
  - Only in selling them
- Lots of ways to market:
  - Direct
  - PYO
  - Wholesale
  - Online
  - CSA





# PRICING



- Lots of ways to decide your price
  - Store prices
  - Market prices
  - USDA
  - Cost of production
- Charge a fair price
  - Cover your cost
  - If very low, will hurt your farm and other farmers
  - “Our cost is higher but we need to emphasize our quality”

# FARMERS MARKETS

- Keep neat, orderly, and full tables to the extent possible
  - Put bright colored vegetables beside contrasting colors
- Share recipes, samples, handling and storage guidelines
  - Bags with your logo can serve as further advertising
- If you do something unique, people will start to look for it
  - They have great recipes
  - I like seeing their family / dog



# ONLINE



- Can develop / continue relationships with customers
  - Tell a story, find out what's important to them, promote your business
- Use limited text and more visuals
  - Most watched videos? Demonstration videos
- Reviews very influential
  - Facebook, Google, Yelp, Tripadvisor
  - Actively manage your reviews

# ONLINE

- May only need one site but be effective at it
  - Facebook probably the best bang for your buck
- The more activity on the post the better
  - Encourage people to comment, like, share, etc.
- Followers, friends, etc. are great but ultimately you want additional sales and customers
  - Encourage them to visit the farm, market, etc.

# THANK YOU & QUESTIONS

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