Is my business profitable?

Tools to help vendors

Our purpose for today

- Tool for tracking daily sales
- The value of a good invoice
- Cost of Production analysis

First things first…who are we?

Our purpose for today

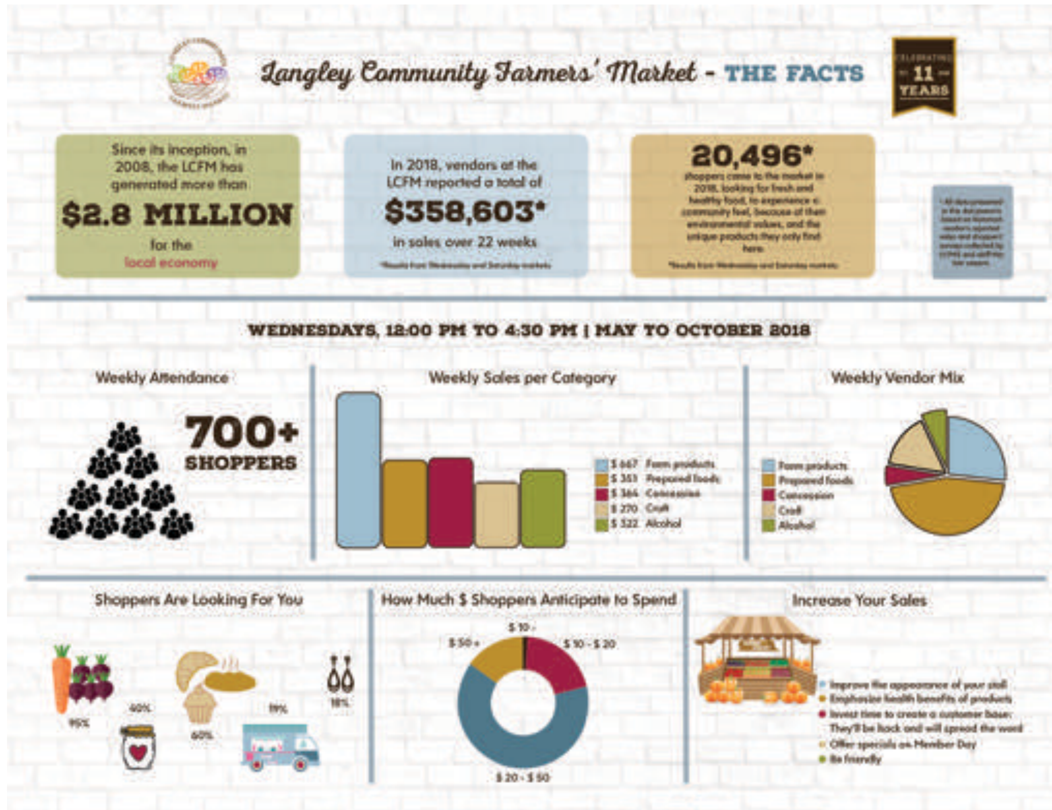
- Tools for tracking daily sales
- The value of a good invoice
- Cost of Production analysis for setting prices

What makes it worth my while to be at market?

Understanding Daily Sales

- Value to Vendor
- Value to Market Manager

Data, data, data!



Calculating Daily Sales

Daily Sales Tracking Sheet - Close to Home Organics

Market Manager: ______________________

Market: ______________________

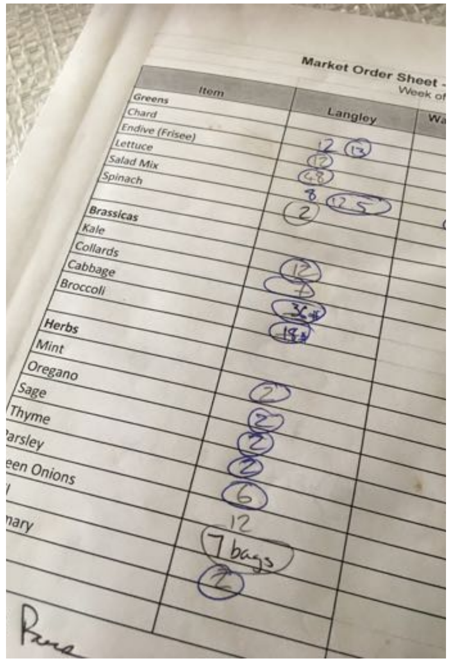
Date: ______________________

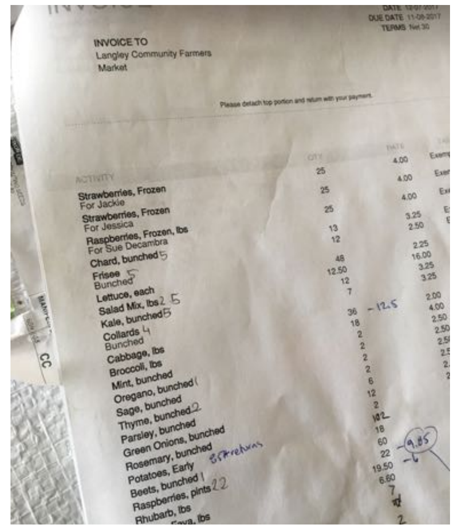
Expenses Out-of-Cashbox (attach all receipts)

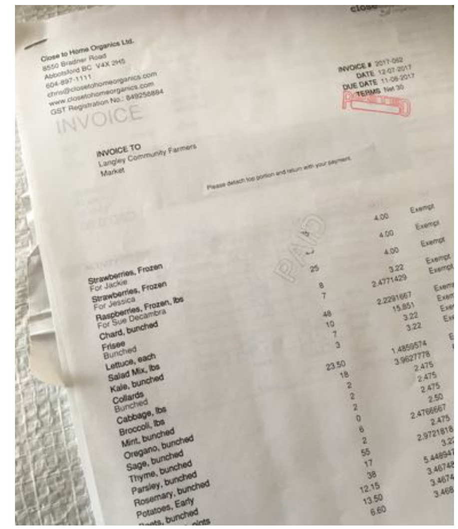
Stall Fee (if applicable)	
Parking	
Contract labour	
Supplies	
Cash from cash box (personal use)	
Total A	

Cash Box

Credit/Debit		**Invoiced Sales from Other Growers**	
Nutrition Coupon Program		Specify:	
Market Tokens		Specify:	
100s			
50s			
20s			
10s			
5s		**Total D**	
2s			
1s		**Total A**	
Change		**Total B**	+
Total B			=
		Total C	-
Float - Total C		**Daily Sales**	=







Creating an invoice

Did I make money?

- Two pieces of a puzzle:
  - Daily Sales
  - Invoice

- Third piece of the puzzle:
  - Cost of Production analysis

What is Cost of Production?

- The cost to produce a standard unit of whatever you are selling

Our purpose for today

- Understand why you would want to calculate your cost of production
- Relate your cost of production to prices
- Relate your cost of production to your ‘break-even’ point at market
- Provide a tool to assess your cost of production and sales data to make decisions about whether or not it’s “worth your while” to be at market



Why calculate cost of production?

Knowing Your Cost of Production sheds light on:

- Valuing your production time
- Setting your prices
- Treating Production and Marketing as separate tasks
- Valuing your time for each task

Popularity vs Profitability

- Popular does not equal profitable
- Each crop is going to have its own cost of production
- How much does it cost me to grow this crop?

When you can answer this question, you can make strategic decisions about what to sell, and at what price.

Types of costs

- Fixed costs remain the same, regardless of use
- Variable costs will change, depending on volume produced, production practices

With an understanding of your cost of production, you can make strategic decisions about efficiencies in your operation.

Production Costs vs. Marketing Costs

- What does it cost to produce a crop?
- What does it cost to market a crop?
- Can a business differentiate between the two?

Differentiating between production costs and marketing costs allows you to see them as separate enterprises, and from there you can make strategic decisions about where and under what circumstances you market your products.

Big Picture Analysis

Step 1: Add up costs (including your labour and a profit goal) for the entire operation

Step 2: Divide by acreage, beds or bed feet

Step 3: Divide by yield of a particular crop for that same unit of growing space

Big Picture Analysis: Steps 1 and 2

Step 1: $250,000

Step 2: 39 568

$250,000/39568=$6.31

Costs per bed foot across our entire operation: $6.31

Big-Picture Analysis, Step 3: Beans

Step 3:

- In 2018, we harvested 1911.7 pounds of beans.
- We grew these beans across 2250 bed feet.
- Our yield per bed foot was 0.85 pounds.

Ouch!

Our analysis shows that our cost of production for that crop was $7.42/pound.

What we actually charged for beans at the market was $4.00/pound.

Setting prices

- Use your Cost of Production as a “Basement Price”
- Basement Price might be your wholesale price
- Try to add a 50% mark-up for Direct-to-Consumer sales




Using a big picture analysis

Advantages

- Quick
- Relatively Easy
- Requires less complicated record-keeping

Disadvantages:

- Less accurate than a detailed analysis
- Not all crops have the same costs and thus, have different profitability.

Method 2: Detailed Cost of Production Analysis

- Establish a unit of yield
- Establish a unit of production space
- Calculate yield for production space
- Assess variable costs to each crop based on usage
- Add fixed costs and desired profit

Detailed Cost of Production Analysis

Advantages

- Get a much better idea of profitability
- Zero-in on profit centres

Disadvantages

- Time-consuming
- Requires detailed record keeping

Strategic Decision-Making

- Could an investment in equipment create efficiencies?
- Should plantings be adjusted?
- Identify waste in your systems
- Talk with your peers

Question for today…
when is it worthwhile for
me to come to market?

What is the minimum volume of sales required at each market to cover the cost of producing the product and the cost of attending the market.

Some calculations to help determine profitability

- Determine your Average Cost of Production
- Determine your Average Gross Margin
- Determine your Break-Even Point

Some calculations to help determine profitability

$$\text{ACOP} = \frac{\text{Total Production Costs}}{\text{Total Sales Revenue}}$$

$$\text{AGM} = 100\% - \text{ACOP}$$

$$\text{Break Even \$} = \frac{\text{Market Costs}}{\text{AGM}}$$

Some calculations to help determine profitability

$$\text{ACOP} = \frac{\$250\,000}{\$400\,000} = 0.63 \text{ or } 63\%$$

AGM = 100% - 63% = 37% or 0.37

$$\text{Break Even \$} = \frac{\$500}{0.37} = \$1351.35$$

Numbers don't tell the whole story…

- Use this information to communicate with your market manager
- Use this information to make strategic choices, investments
- Use this information for planning for next season!

Peer Groups

1. Compare your numbers with colleagues
2. Create a culture of collaboration
3. Have confidence in your pricing
4. Consider shared tools and implements

Additional Help

- BC Agri-Business Planning Program (Ministry of Agriculture)
  - Up to $5,000 in consulting services
- Kootenay & Boundary Farm Advisors
- Basin Business Advisor Program