

The New Mexico Sustainable Agriculture Conference

Planning for Profit: The Importance of Record Keeping

Michael Patrick

Community Resource & Economic Development Specialist

New Mexico Cooperative Extension Service

jmpat@nmsu.edu

Los Lunas, NM

December 13, 2017

The New Mexico Sustainable Agriculture Conference

“Did I make any money this year?”

What information do I need to
answer this question?

The New Mexico Sustainable Agriculture Conference

- Answer: Revenue and expense data
- Business profit is what is left from business revenues (sales) after all business expenses are paid.
- But, what business expenses should I keep track of?

The New Mexico Sustainable Agriculture Conference

- Answer: Business expenses can be divided into two categories- those that vary with output and those that remain fixed. Added together, they constitute the business' total expense (cost).
- Total Cost = Variable Cost + Fixed Cost

The New Mexico Sustainable Agriculture Conference

- Variable Costs are those expenses that vary with increases and decreases in production, like:
 - Seeds & transplants
 - Fertilizer & chemicals
 - Repairs & maintenance
 - Fuel & oil
 - *Advertising*
 - Packaging
 - Storage
 - Transportation & delivery
 - *Interest payments*

The New Mexico Sustainable Agriculture Conference

- Fixed costs are those expenses that do not change with increases or decrease in production, like:
 - Insurance
 - Debt payment (interest & principal)
 - Rent (land, equipment, machinery, buildings)
 - Depreciation (machinery, equipment, buildings)
 - *Utilities*
 - *Taxes*
 - *Salaries and wages*

The New Mexico Sustainable Agriculture Conference

- How can I keep track of my business revenues and expenses?
- A spreadsheet is a recordkeeping tool for organizing revenue and expense data in an orderly and time-sequenced (monthly, annually) fashion.

The New Mexico Sustainable Agriculture Conference

- Data from a spreadsheet is used to develop the business' pro forma income statement.
- An income statement (also called a profit and loss statement) is commonly used to measure the business' profitability.

The New Mexico Sustainable Agriculture Conference

(100' by 4' bed)	Pro Forma Income Statement	
	Heirloom Tomatoes	
	(840 pds @ \$2.00/pd)	
Revenue	\$	1,680.00
Expenses	\$	870.00
<i>Variable Costs</i>		
Planting		
seed/transplants	\$	5.00
fertilizer and chemicals	\$	4.00
water	\$	50.00
labor	\$	33.00
equipment	\$	75.00
Harvest		
labor	\$	450.00
equipment	\$	-
packaging	\$	36.00
Storage/Refrigeration	\$	10.00
<i>Fixed Costs</i>		
advertising/promotion	\$	24.00
transportation	\$	6.00
fees	\$	75.00
labor	\$	45.00
management		-
utilities	\$	6.00
rent (land, equipment, machinery, building)	\$	30.00
depreciation (equipment, machinery, building)	\$	21.00
debt (interest & principal)		-
taxes		-
Profit	\$	810.00

The New Mexico Sustainable Agriculture Conference

Pro Forma Income Statement

	Heirloom Tomatoes (840 pds @ \$2.00/pd)	Salad Greens (185 pds @ \$6.00/pd)	Egg Plant (800 pds @ \$1.50pd)	HT/SG/EP
(100' by 4" beds)				
Revenue	\$ 1,680.00	\$ 1,110.00	\$ 1,200.00	\$ 3,990.00
Expenses	\$ 870.00	\$ 314.00	\$ 278.00	\$ 1,462.00
<i>Variable Costs</i>				
Planting				
seed/transplants	\$ 5.00	\$ 5.00	\$ 48.00	\$ 58.00
fertilizer and chemicals	\$ 4.00	\$ 4.00	\$ 4.00	\$ 12.00
water	\$ 50.00	\$ 50.00	\$ 50.00	\$ 150.00
labor	\$ 33.00	\$ 2.00	\$ 15.00	\$ 50.00
equipment/materials	\$ 75.00	\$ 21.00	\$ -	\$ 96.00
Harvest				
labor	\$ 450.00	\$ 128.00	\$ 60.00	\$ 638.00
equipment	\$ -	\$ -	\$ -	\$ -
packaging/containers	\$ 36.00	\$ 25.00	\$ 22.00	\$ 83.00
Storage/Refrigeration	\$ 10.00	\$ 10.00	\$ 10.00	\$ 30.00
<i>Fixed Costs</i>				
advertising/promotion	\$ 24.00	\$ 8.00	\$ 8.00	\$ 40.00
transportation	\$ 6.00	\$ 2.00	\$ 2.00	\$ 10.00
fees	\$ 75.00	\$ 25.00	\$ 25.00	\$ 125.00
labor	\$ 45.00	\$ 15.00	\$ 15.00	\$ 75.00
management	\$ -	\$ -	\$ -	\$ -
utilities	\$ 6.00	\$ 2.00	\$ 2.00	\$ 10.00
rent (land, equipment, machinery, buildings)	\$ 30.00	\$ 10.00	\$ 10.00	\$ 50.00
depreciation (equip, mach, bldg)	\$ 21.00	\$ 7.00	\$ 7.00	\$ 35.00
debt (interest & principal)	\$ -	\$ -	\$ -	\$ -
taxes	\$ -	\$ -	\$ -	\$ -
Profit	\$ 810.00	\$ 796.00	\$ 922.00	\$ 2,528.00

The New Mexico Sustainable Agriculture Conference

- What's the return on my labor?
- Small scale vegetable and fruit production tends to be labor-intensive. Consequently, when making a decision regarding what to grow, the hours of labor required and the return to labor on those hours is often an important consideration.

The New Mexico Sustainable Agriculture Conference

Returns on Labor

<u>Crop</u>	<u>Profit</u>	<u>Hrs of Labor</u> *	<u>Profit/Hrs of Labor</u>
H. Tomatoes	\$810	64	\$12.65
Salad Greens	\$796	17	\$48.82
Egg Plant	\$922	10	\$92.20

*Planting & harvesting

The New Mexico Sustainable Agriculture Conference

“Projected year-end profitability does not
guarantee year-end profitability.”

Why?

The New Mexico Sustainable Agriculture Conference

Answer:

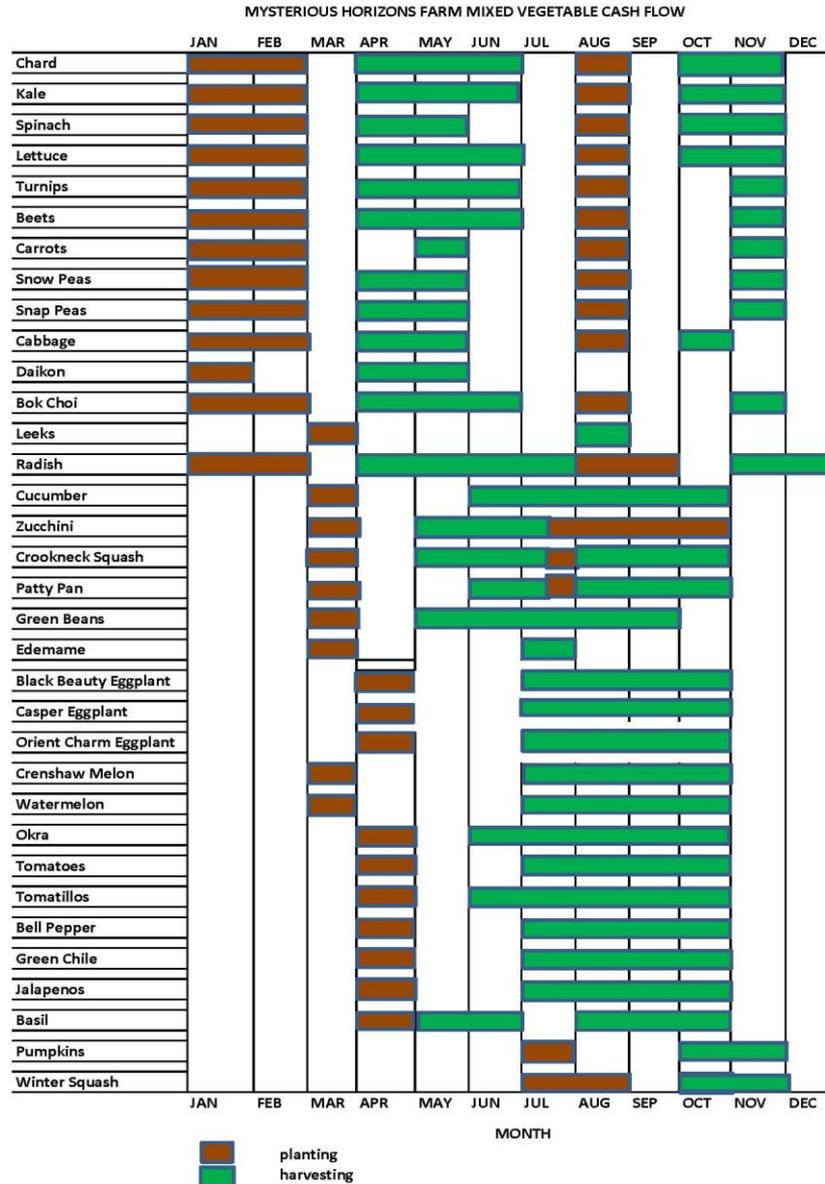
- Crop failure
- Market prices lower than expected
- Demand lower than expected
- Expenses higher than expected
- Cash flow problems

The New Mexico Sustainable Agriculture Conference

Cash Flow

- Businesses often fail because they run out of cash. When business revenues and expenses do not occur at the same time, expenses can exceed revenues forcing the business to cut back or close.
- Cash flow analysis can help the business spot those periods where expenses are likely to exceed revenues, putting the business in a potentially dangerous financial position.

The New Mexico Sustainable Agriculture Conference



The New Mexico Sustainable Agriculture Conference

Crop Diversification

- Diversifying your crop selection can contribute to higher and more stable income by reducing economic risk and improving cash flow.
- Crop diversification also contributes to a healthy eco-agro system through conservation of natural resources, enhanced soil health, and reduced damage to the environment.

The New Mexico Sustainable Agriculture Conference

Business Planning

- Identifying the appropriate enterprise (cropping) mix begins with evaluating the farm's limitations and opportunities based on family considerations and available resources: land, water, equipment, machinery and buildings, management and labor, and financial.
- Choosing your enterprise (cropping) mix should be based on family goals, preferences for crops, willingness to commit time (full-time, part-time), ability to supervise workers, and willingness to interact with people (customers).

The New Mexico Sustainable Agriculture Conference

Conclusion

Producing for profit requires planning based on good recordkeeping.

The New Mexico Sustainable Agriculture Conference

Questions?

Comments

The New Mexico Sustainable Agriculture Conference

Thank you!