



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

Hazelnuts Fraser Valley Summer 1993

Agdex 242 - 810

Introduction

The planning process provides producers with the opportunity to look at their operation as a group of distinct enterprises. Alternative enterprises should be evaluated on the basis of **Contribution Margin**, taking into consideration resource constraints, market opportunity, risk and uncertainty.

The **Contribution Margin** must provide funds for interest, overhead and other indirect expenses as well as a return for living expenses, loan repayment and investment. These items should be included in the overall farm plan which will include a **Projected Income Statement** and **Projected Cash Flow Statement**.

Key Factors Affecting Profit

	Target
Quantity	2,500 lbs./acre
% X-Lg & Lg	75%
Price	\$.85 - .95/lb.

These yield and quality targets reflect appropriate site selection and above average management in orchard fertility, variety choice, pollenizer selection and placement, weed and insect control and pruning.

Tree density and regular, proper pruning practices will improve yields and quality as well as tree vigor. Some growers opt to double plant initially to get high early yields and then remove half the trees in year 12. The costs and benefits of this alternative should be evaluated on an individual basis.

Marketing Alternatives

Marketing opportunities exist for hazelnuts sold through the processors to the wholesale and retail trade. There are also opportunities for farm sales (u-pick and picked), roadside stand and other direct markets. Hazelnuts have potential for higher returns through niche markets in the food industry or cottage industries.

Cash Flow Timing

	N	D	J	F	M	A	M	J	J	A	S	O
%Inc		30	50									20
%Exp						10			10		20	60

The above information indicates the timing of monthly flow of funds included in the Contribution Margin only. A complete **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans and personal expenses.

Rules of Thumb

Investment	\$2,200 - \$2,500/acre
Direct Expense % of Income	70 - 80%

The above indicators are provided for comparison purposes. They are set out as potential targets for hazelnut production.

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HAZELNUTS

Target Yield - 2,500 lbs./Acre

Contribution Margin 1 Acre of Hazlenuts

Income

	Yield	Price	Unit	Income
X-Lg & Lg	1,875	\$.90	lb.	\$1,678
Med & Sm	625	.45	lb.	281
Total Income	2,500	\$.79	lb.	\$1,959

Direct Expenses

	Quantity	Price	Unit	Expense
<u>Fertilizer</u>				
46 - 0 - 0	250	\$.34	kg	\$85
Solubor	2.3	1.83	litre	5
Pest Control				49
Fuel Costs				21
Machinery Repair & Maintenance				62
<u>Contracts & Custom Work</u>				
Tissue Analysis				5
Harvesting	2,500	.10	lb	250
Processing & Marketing		.40	lb	1,000
Total Direct Expenses				\$1,477

Contribution Margin* **\$483**

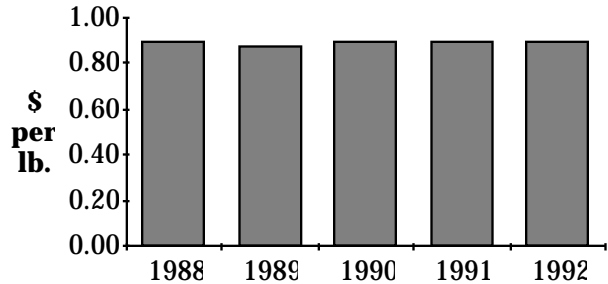
*Some indirect costs to be covered by the Contribution Margin are: costs of financing; owner/operator labour (pruning, fertilizing, spraying, mowing, etc.); and management.

Buildings and Machinery Replacement Cost Total Farm Size - 40 Acres*

Hazelnut Trees	\$21,500
Buildings	6,000
Tractors (60 Hp)	40,000
Flail, Sprayer etc.	14,500
Truck (3/4 ton)	<u>13,000</u>
Total	\$95,000

*Smaller plantings would still incur these basic building & machinery costs.

Wholesale Price Large Hazelnut



Contribution Margin - Sensitivity Analysis

The table below lists the changes to contribution margin as quantity of yield changes and average price received varies.

PRICE \$/lb.	Yield Lbs. per Acre			
	1,500	2,000	2,500	3,000
.60	(77)	(27)	23	73
.70	73	173	273	373
.78	199	341	483	625
.90	373	573	773	973

This information is provided as a guideline only. Target yield indicates above average production. An individual crop plan should be developed by each producer. Planning forms may be obtained from your local office of the B. C. Ministry of Agriculture, Fisheries and Food.