



PLANNING FOR PROFIT

Potted Herbs from Cuttings
Fraser Valley
Spring 1997

Agdex 263-810

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	13.5 - 4" plants/sq.ft
Price	\$0.70 - \$1.00 each

Profit is greatly affected by market conditions and prices. Production timing can be critical to success.

High quality seed with good germination is important for production efficiency as well as for meeting grading standards at time of sale. Species vary in their germination and orders with high germination species are more profitable.

Marketing Alternatives

Potted herbs are sold to wholesalers, directly to retailers and to the hotel, restaurant market. It is imperative to investigate the market potential and ascertain volumes, prices and potential buyers before producing potted herbs. Growers strive for year round production rather than incur seasonal fluctuations.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc	5	10	5	5	10	10	10	5	10	10	10	10
%Ex	10	10	10	10	5	5	5	5	10	10	10	10

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	\$16 - \$17/sq. ft.
Labour % of Direct Expenses	50% - 60%
Direct Expenses % of Income	80% - 90%

The above indicators are provided for comparison purposes. They are set out as potential targets for producing potted herbs from cuttings.

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HERBS FROM CUTTINGS

Target Yield - 13.5 pots/sq. ft.

Contribution Margin 1,000 sq. ft. of Potted Herb Production from Cuttings Fraser Valley

Income				
	Yield	Price	Unit	Income
4" Pot	13,500	\$0.75	each	\$10,125
Direct Expenses				
	Quantity	Price	Unit	Expense
Supplies				
Planting Media	10	\$66.25	m ³	662
Plant Nutrients & Pest Control				200
Pots	13,500	0.059	each	794
Flats	844	0.69	each	582
Tags	1,688	0.025	each	42
Utilities				
Heating	100	6.09	1,000MJ	609
Fuel Costs				200
Repair & Maintenance				
				115
Labour Costs				
Potting				475
Cuttings				1,017
Sticking				475
Weed & Spray				950
Maintenance				950
Grading & Loading				320
Driving				80
Miscellaneous				80
Market @ 7.5% of Total Sales				760
Total Direct Expenses				\$8,311
Contribution Margin				\$1,814

Buildings and Machinery Replacement Cost Total Farm Size - 2 Acres Total Greenhouse Size - 20,000 sq.ft.

Greenhouses	\$ 73,500
Propagation & Potting House	18,500
Heating & Climate Control	84,000
Crop Handling Systems	94,000
Site Preparation & Roadways	35,000
Vehicle	25,000
Total	\$330,000

Potted herbs are a developing market and price trends are not available for BC. This has been an expanding market for the last few years which suggests the possibility of the market slowing down or stabilising.

This budget does not include the cost of maintaining stock plants.

Contribution Margin – Sensitivity Analysis

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

PRICE	Yield pots/1,000 sq.ft.			
\$/pot	12,000	13,000	13,500	14,000
0.50	(2,311)	(1,811)	(1,561)	(1,311)
0.60	(1,111)	(511)	(211)	89
0.75	689	1,439	1,814	2,189
0.85	1,889	2,739	3,164	3,589

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 BC Ministry of Agriculture, Fisheries and Food.