

PLANNING FOR PROFIT



Ministry of Agriculture,
Food, & Fisheries

Certified Organic Versus Non-Organic Budgets for German Chamomile Flower 1/4 Acre Winter 2002

This information is provided as a tool for projecting costs and returns for B.C. farm enterprises and as a general guide for planning individual farms. The sample budget should be used as a guide only and should not be used for business analysis without adjustments to reflect individual situations. Each farm should develop their own budget to reflect their production goals, costs and market prices.

Information regarding financial planning and other enterprise budgets may be downloaded from the internet at <http://www.agf.gov.bc.ca/busmgmt/budgets/index.htm>.

Key Success Factors

- Medium level of horticultural training and skills.
- Good site selection and preparation.
- Vigilant record keeping of all aspects of operation from production to marketing.
- Strong marketing skills. Identify and research your markets prior to planting.
- Reduce direct and indirect expenses as much as possible -

Risk Factors and Strategies

Production Risks - Disease, weed and insect control are essential to ensure high yields. Climate, topography and soil conditions will affect crop and variety options. Ensure you make selections that are suited to your area.

Inexperience and lack of diligence can result in a set back or general reduction in crop yields. Adverse weather conditions can reduce yields and quality. Programs available to offset production risks include NISA and whole farm insurance.

Handling Risks - Ensure all crops are properly harvested, dried, packaged, stored and shipped. Improper handling will reduce the amount of your marketable product.

Price Risks - Depending upon your target market, competition from other local growers or import products is a constant factor. Adjustments in your production or marketing plans may be required. Providing a consistent and high quality product and ensuring your customer needs are met are vital elements in offsetting adverse effects of a competitive market place.

Herbs prices are also very quantity sensitive. Small scale production may result in higher gains than production over 250 lbs.

Market Risks - This will depend upon your marketing strategy. Buyers for herb crops change quite rapidly. Demand for one herb may be high in one year and slow the next. Ensure that your commodity mix will allow for the rise and fall of the markets for individual herbs. Expect to spend a large portion of time keeping track of the current market.

Sample Enterprise Budget and Worksheet

Certified Organic Versus Non-Organic Budgets for German Chamomile Flower

The sample enterprise budget provided should be viewed as a first approximation only. Use the column "your farm" to add, delete and adjust items to reflect your specific production situation.

The following income and direct expense information does not account for general farm inputs that are applied to the total farm area (eg. general labour costs; general marketing costs, organic certification fees).

Projected Income - Certified Organic German Chamomile

	Yield	Unit	Average	Total	Your Farm
			Price	Income	
Chamomile flower, cert organic	150	lbs	16.00	\$2,400	

Projected Direct Expenses- Certified Organic German Chamomile

Labour	Area	Quantity	Unit	Price	Expense	
Weeding - hired labour		45	hour	8.00	\$360	
Harvest - hired labour		120	hour	8.00	\$960	
<i>Total hired labour cost</i>		165.0	hour	8.00	\$1,320	
Seed Cost						
German Chamomile, Bodegold	.25 acre	1	kg	300.00	\$300	
Fall rye - cover crop	.25 acre	10	kg	0.65	\$7	
Tractor Fuel						
		14	litres	0.50	\$7	
Tractor Oil & lube						
					\$1	
Packaging						
Bags - large		4	each	0.05	\$0	
Corrugated boxes		4	each	2.50	\$10	
Marketing						
Advertising/faxes/telephone					\$100	
Irrigation	0.25	0.25	acres	60.00	\$15	
TOTAL					\$1,760	
Income less Direct Expenses (certified organic production)					\$640	

Projected Indirect Expenses

Your Farm

Depreciation	_____
Interest	_____
Insurance	_____
Administration	_____
Legal/accounting	_____
Other	_____

Total

Indirect expenses do not vary with the level of output and are typically associated with inputs used in more than one enterprise and must be allocated appropriately (prorated) between uses.

Projected Net Income

Your Farm

Projected Income	_____
<i>minus</i> Projected Direct AND Indirect Expenses	_____
	Projected Net Income	_____

Sensitivity Analysis of Total Production Income

Profitability is strongly influenced by market prices and yield. The tables below illustrate the changes to income as prices and yield vary.

Price vs. Income

	Low Price	Average Price	Target Price	High Price
	\$8.00	\$14.00	\$16.00	\$18.50
Total Income	(\$560)	\$340	\$640	\$1,015

Yield vs. Income

	Low Yield	Average Yield	Target Yield	High Yield
	85	125	150.00	185.00
Total Income	\$280.25	\$424.25	\$640.25	\$856.25

Certified Organic vs Conventional

	Area	Yield	Unit	Average Price	Price Range	Total Income
Chamomile flower, cert organic	.25 acre	150	lbs	\$16	14.00-22.00	\$2,400
Chamomile flower, conventional	.25 acre	150	lbs	\$3	2.00-4.00	\$450

Cash Flow Timing

The table below indicates the monthly flow of income and indirect expenses.

	J	F	M	A	M	J	J	A	S	O	N	D
% Income	0	0	0	0	0	0	0	0	20	40	40	0
% Direct Expenses	0	0	18	2	20	20	20	10	10	0	0	0

Total labour hours required

Labour	Quantity	Unit
Seeding	1.5	hour
Weeding	40	hour
Weeding - hired labour	45	hour
Pest/Disease control	4	hour
Fertilization	2	hour
Irrigation	2	hour
Harvest	30	hour
Harvest - hired labour	120	hour
Drying	3	hour
Packaging	2	hour
Soil prep (spring & fall)	1.5	hour
Seeding of cover crop	0.5	hour
Total operator labour hours	86.5	hour
Total hired labour cost	165	hour
Total labour hours required	251.5	hour

Investment Capital Replacement Costs

Buildings	\$15,000
Tractor	15,000
Implements	
..... Tillers	8,000
..... Harrows	2,000
Rototiller	500
Rightway™ Planter	150
Hand rakes for harvest - 3	300
Dryer	1,500
Bins/totes etc.	100
Hand trucks/dolleys	100
Scale	300
Vehicle	12,000
Small Tools & Equipment	500
Irrigation System	3,000
Total	\$58,450

Assumptions

The following assumptions were made in calculating the sample budget:

General Farm Assumptions

Income & Expenses:

- Projected income and expenses are based on current markets.

Cover crop Assumptions (.25 acres):

- Planting rate: 40kg fall rye/acre; 10 kg total requirements.
- Tractor hours: 3hrs/acre soil prep in fall; 1hr/acre discing in seed; 3hrs/acre soil prep in spring; total 7hrs/acre x .25 acres = 1.75 hrs.
- Cover crop (fall rye) planted in the fall (September) after harvest of annual crops . Time to work in crop residues and prepare soil for seeding is 3hr/acre - Seed is broadcasted by hand (1hr/acre) and then disced into the soil (1hr/acre) - In the spring the cover crop is worked back into the soil and the land is prepared for planting (3hr/acre) - Nutrients applied to cover crop will be subsequently be released to food crop.
- Cover crop is used as a green manure (ie.nutrient/organic matter source) with no direct income gained.

German Chamomile Assumptions

Planting Information:

- Planting is based on rows with 30" centres.
- Planting equipment: single row, push-type "Rightway TM" precision seeder.

Quality Considerations

- Variety suggested is Bodegold - Seed is more expensive but flowerheads are larger.
- Full colour must be retained by careful drying.
- Crop must contain as little stem as possible.

Marketing Information:

- Prices are based on selling entire production to a small to mid-size manufacturer. A more difficult market is selling directly to retail customers, small craft companies or herbalists. A higher price could be realized in the smaller market but will increase the time and expense required for marketing and packaging.
- Chamomile is used as a tea herb and in medicinal herb extracts.

Labour requirements:

- Herb enterprises are normally conducted using operator labour with occasional outside help brought in during weed & harvest crisis situations.
- Most weed control labour happens during the seedling stage when the plants are the least weed tolerant once the plants reach 12", they begin to shade out weeds and the labour requirements diminish dramatically.
- Harvest labour is estimated on an average picker harvesting 1 dried lb/hour.

Equipment Costs:

- Tractor Fuel Costs are calculated as follows: no - of tractor hours x 8L/hr consumption x \$0.50/L price -
- Oil & lube costs are assumed at 15% of fuel costs.
- Repair and Maintenance costs are calculated at 3% of investment capital replacement cost.
- Investment capital replacements costs are for a 10 acre farm with 2 acres in production.

References:

- Technical Feasibility Study for Medicinal & Aromatic Plants - AG Consulting
- Medicinal Herbs in the Garden, Field & Marketplace, L. Sturdivant, T. Blakeley
- Potential of Herbs as a Cash Crop, RA Miller
- Richters Herbs, www.richters.com
- BCMAFF - Planning for Profit Budgets - <http://www.agf.gov.bc.ca/busmgmt/budgets/index.htm>

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