



PLANNING FOR PROFIT



BRITISH
COLUMBIA

Ministry of Agriculture,
Food, & Fisheries

Certified Organic Versus Non-Organic Budgets For Passion Flower Herb 1/4 Acre Winter 2002

This information is a tool to project costs and returns for B.C. farm enterprises and is a general guide to plan individual farm operations. This sample budget should be used as a guide only. Each farm should develop their own budget to reflect specific production goals, costs and market prices.

Information regarding financial planning and other enterprise budgets may be viewed at the B.C. Ministry of Agriculture, Food and Fisheries website (<http://www.agf.gov.bc.ca/busmgmt/>).

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. Certified organic production is the simplest way to compete with low-cost imported crops. 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 appear and disappear 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 Passion Flower Herb

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 (e.g.. general labour costs; general marketing costs; irrigation fees; repair&maintenance, organic certification fees).

Projected Income - Certified Organic Passionflower

	Yield	Unit	Average Price	Total Income
Passionflower, cert organic	500	lbs	11.00	\$5,500.00

Your Farm

Projected Direct Expenses - Certified Organic Passionflower

Labour	Area	Quantity	Unit	Price	Expense
Weeding - hired labour		85	hour	8.00	680.00
Harvest - hired labour		12	hour	8.00	96.00
<i>Total labour costs</i>		97	hour	8.00	776.00
Seed Cost					
Passionflower	.25 acre	0.5	kg	1,200.00	600.00
Fall rye - cover crop	.25 acre	10	kg	0.65	6.50
Fertilizer					
Tractor Fuel					
Tractor Oil & lube					
Packaging					
Bags - large		20	each	0.05	1.00
Corrugated boxes		20	each	2.50	50.00
Marketing					
Advertising/faxes/telephone					100.00
Irrigation	0.25	0.25	acres	60.00	15.00
TOTAL					\$1,556.55

Income less Direct Expenses (certified organic production)

\$3,943.45

Projected Indirect Expenses

Depreciation	_____	Your Farm
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

Projected Income	_____	Your Farm
<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
	\$3.50	\$8.00	\$11.00	\$14.50
Total Income	\$193	\$2,443	\$3,943	\$5,693

Yield vs. Income

	Low Yield	Average Yield	Target Yield	High Yield
	350	460	500	625
Total Income	\$2,293	\$3,503	\$3,943	\$5,318

Certified Organic vs. Conventional

	Area	Yield	Unit	Target Price	Price Range	Total Income
Passionflower, cert organic	.25 acre	500	lbs	11.00	10.00-16.00	\$5,500.00
Passionflower, conventional	.25 acre	500	lbs	5.50	4.50-7.50	\$2,750.00

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	0	50	50	0
% Direct Expenses	0	0	40	15	20	12	8	15	0	0	0	0

Total Labour Requirements

Labour	Quantity	Unit
Seeding	1	hour
Weeding	35	hour
Weeding - hired labour	85	hour
Pest/Disease control	4	hour
Fertilization	2	hour
Irrigation	2	hour
Harvest	22	hour
Harvest - hired labour	12	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	73	hour
Total hired labour hours	97	hour
Total labour hours	170	hour

Investment Capital Replacement Costs

Buildings	\$15,000
Tractor	15,000
Implements	
..... Tillers	8,000
..... Harrows	2,000
Rototiller	500
Washing equipment	200
Dryer	1,500
Bins/totes etc.	100
Hand trucks/dolleys	100
Scale	300
Vehicle	12,000
Small Tools & Equipment	500
Irrigation System	<u>3,000</u>
Total	\$58,200

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.

Planting Information:

- Passionflower is generally grown as an annual in British Columbia although some coastal areas may be able to keep this as a perennial crop resulting in slightly higher yields.
- Planting is based on rows with 30" centres - Aim for 18-24" between plants.
- Due to high seed cost, a grower may want to consider planting seedlings.

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.
- Passion flower herb sold in the current market is usually wildcrafted. Demand for certified organic production has been increasing from small to medium manufacturers.

Quality Considerations

- Full colour of herb must be retained through careful drying.

Labour requirements:

- Herb enterprises are normally conducted using operator labour with occasional outside help brought in during weed or 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.

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 costs.
- Investment Capital replacements costs are for a 10acre 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 - available at <http://www.agf.gov.bc.ca/busmgmt/budgets/index.htm>

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