



PLANNING FOR PROFIT



BRITISH
COLUMBIA

Ministry of Agriculture,
Food, & Fisheries

Certified Organic Versus Non-Organic Budgets For Lavender Flower 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/>).

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 a 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 Lavender 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; irrigation fees; repair&maintenance, organic certification fees).

Projected Income - Certified Organic Lanvender Flowers

	Area	Yield-Year 2	Unit	Average Price		Total Income Year 2
Lavender flower, cert organic	.25 acre	50	lbs	14.00		\$700.00

Projected Direct Expenses- Certified Organic Lanvender Flowers

Labour	Qty-Year 1	Qty - Year 2	Unit	Price	Expense-Yr 1	Expense-Yr 2
Planting - hired labour	24			8.00	192.00	
Harvest - hired labour		40	hour	8.00	0.00	320.00
Plant Cost						
Lavender plugs	1600		each	0.50	800.00	0.00
Tractor Fuel	14		litres	0.50	7.00	0.00
Tractor Oil & lube					1.05	0.00
Packaging						
Bags - small		50	each	0.03	0.00	1.50
Corrugated boxes		2	each	2.50	0.00	5.00
Marketing						
Advertising/faxes/telephone					0.00	100.00
Irrigation	0.25	0.25	acres	60.00	15.00	15.00
TOTAL					\$1,015.05	\$441.50

Establishment Costs

-\$1,015.05

Income less Direct Expenses (certified organic production)

\$258.50

Projected Indirect Expenses

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

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

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
	\$8.50	\$10.00	\$14.00	\$16.50
Total Income	(\$16.50)	\$58.50	\$258.50	\$383.50

Yield vs. Income	Low Yield	Average Yield	Target Yield	High Yield
	30	44	50.00	62.00
Total Income	(\$21.50)	\$174.50	\$258.50	\$426.50

Certified Organic vs Conventional

	Area	Yield-Year 2	Unit	Average Price	Price Range	Total Income
Lavender flower, cert organic	.25 acre	50	lbs	14.00	13.00-18.00	700.00
Lavender flower, conventional	.25 acre	50	lbs	11.00	8.00-12.00	550.00

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
% Direct Expenses - Year 2	0	0	0	0	0	5	65	20	10	0	0	0
% Income	0	0	0	0	0	0	0	0	50	50	0	0

Total Labour Requirements

Labour	Qty-Year 1	Qty - Year 2
Planting	8	
Planting - hired labour	24	
Weeding	40	40
Pest/Disease control	1	1
Fertilization	2	2
Irrigation	2	2
Harvest		10
Harvest - hired labour		40
Drying		2
Packaging		4
Total operator labour	53	61
Total hired labour	24	40
Total labour	77	101

Investment Capital Replacement Costs

Buildings	\$15,000
Tractor	15,000
Implements	
..... Tillers	8,000
..... Harrows	2,000
Rototiller	500
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	\$58,000

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.

Planting Information:

- Planting figures are based on hand-planting of plugs.
- There may be a small harvest available in the first year.

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.
- The highest return in lavender production is attained in the manufacture of value-added products.
- Other opportunities exist in u-picks and the fresh flower market.

Labour requirements:

- Herb enterprises are normally conducted using operator labour with occasional outside help brought in during weed/harvest crisis situations.
- Harvest labour is estimated on an average picker harvesting 1 dried lbs/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 - available <http://www.agf.gov.bc.ca/busmgmt/budgets/index.htm>

Contributors:

The following people contributed to the preparation of this factsheet:

- Tracy Schimpf, contractor, Kelowna.
- Howard Joynt, P.Ag., Farm Management Specialist, BCMAFF, Vernon.
- herb growers