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EMERGING AGRICULTURAL MARKETS TEAM
UW COOPERATIVE EXTENSION

Crop Budgets for Direct Marketers

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A specialty crop enterprise budget is a useful tool to identify income and expenses for various crops.

Before producing a crop, growers need to know its market potential. Developing a marketing plan for each individual crop will enable you to determine if there is potential for selling the product.

Specialty crops are "profit centers"

Specialty crops compete on most farms for limited capital, land, labor and management resources. View each specialty crop as a separate "profit center" and compare it to other crops available.

A specialty crop enterprise budget is a useful tool to identify income and expenses for various crops. Use the same format to track each individual crop so you can compare those that interest you. Select a common unit for making these comparisons, such as cost per thousand square feet or profit per acre.

Keep good records

Good farm records are needed to determine the farm's previous crop income and expense history. Depreciation records will identify equipment available for field operation and serve as a guide to its value.

A crop record book is useful in obtaining previous yield information and crop production inputs. Farm records are not usually organized by enterprise in a way that they can be used in a budget. You need to break the information down on an enterprise basis for it to be useful. Data you will need includes:

Individual crop expenses

- Production records
- Record of expenses for taxes or business analysis

Equipment & building costs

- Investment value
- Amount allocated to crop under analysis
- Annual ownership cost (depreciation & interest)

Labor Costs

- Labor records for each crop

Budget structure

Specialty crop budgets can be divided into five separate components:
(1) gross returns; 2) variable production costs; 3) fixed production costs; 4) total costs; 5) returns to resources.

Some items to consider when making budget estimates include:

1. **Gross returns**
   - Production level
   - Marketing outlets available
   - Level of competition
2. **Variable production costs**
   - Seed, fertilizer, chemicals, etc.
   - Equipment, fuel & repairs
   - Hired labor
   - Interest on operating capital
3. **Fixed production costs**
   - Equipment ownership
   - Building ownership
   - Family labor
   - Land
   - Management
4. **Total costs**
   - Without labor and management
   - With labor and management
5. **Returns by category**
   - Gross returns
   - Less variable costs
   - Returns over variable costs
   - Less fixed capital costs
   - Returns to labor and management
   - Less labor costs
   - Returns to management
   - Less management costs

Sensitivity analysis

It is important to conduct a sensitivity analysis of gross returns. This includes changing the values of key variables to determine how lower and higher prices and yield will affect both profitability and net cash flow. This information can be useful in determining the level of risk.

Strategies to reduce risk

There are four types of strategies for adapting to changes in profitability and net cash flow over time.

1. **Maximizing profits per acre (or per 1000 square feet)**
   This involves maximizing returns to all inputs and requires efficiency in both marketing and production. For example; reducing fertilizer and chemical costs, refining timeliness of planting and harvesting and selecting the proper machinery.
2. **Reducing the variability of returns over time**
   Proper production strategies include using proven crop varieties and pesticides, as well as economical equipment.
3. **Using different strategies for acquiring capital items**
   Field equipment can be very expensive on limited acres. Growers should consider a short- or long-term lease or hiring custom work if it can reduce annual costs or cash flow concerns.
4. **Developing forward-planning strategies**
   It is important to develop good working relations with lenders. Use price forecasts, off-farm income and conservative yield information when developing your budgets.

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