Making Money in the Sweet Cherry Business: What's Stopping You?

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Key Trends Impacting Your Business

- **Minimum Wage Rates**

- **Immigration Reform**

- **Fully automated harvesters?**
  - *cost of a machine*
  - *number of machines required*
  - *purchase vs. custom hire*

Key Trends Impacting Your Business

- **Climate Change/Weather Variability:**
  - ✓ **earlier harvest season**
  - ✓ **condensed harvest season**
  - ✓ **reduced chilling hours**
  - ✓ **fruit quality**
  - ✓ **adaptation strategies**

- **Orchard Renewal:**
  - ✓ **new varieties/rootstocks**
  - ✓ **increased per acre yields/revenues**
  - ✓ **costs to establish**

# Key Trends Impacting Your Business

Orchard Renewal Decisions should be based on Capital Investment Analysis

Block-by-block accounting is essential!

85 percent of agricultural producers do not have adequate accounting data to complete an accurate, meaningful capital investment analysis!

Innovation Adoption Curve
Diffusion of Innovations: Everett Rogers

Innovators

Early Adopters

Early Majority

Late Majority

Laggards

4%

12%

34%

34%

16%

Time
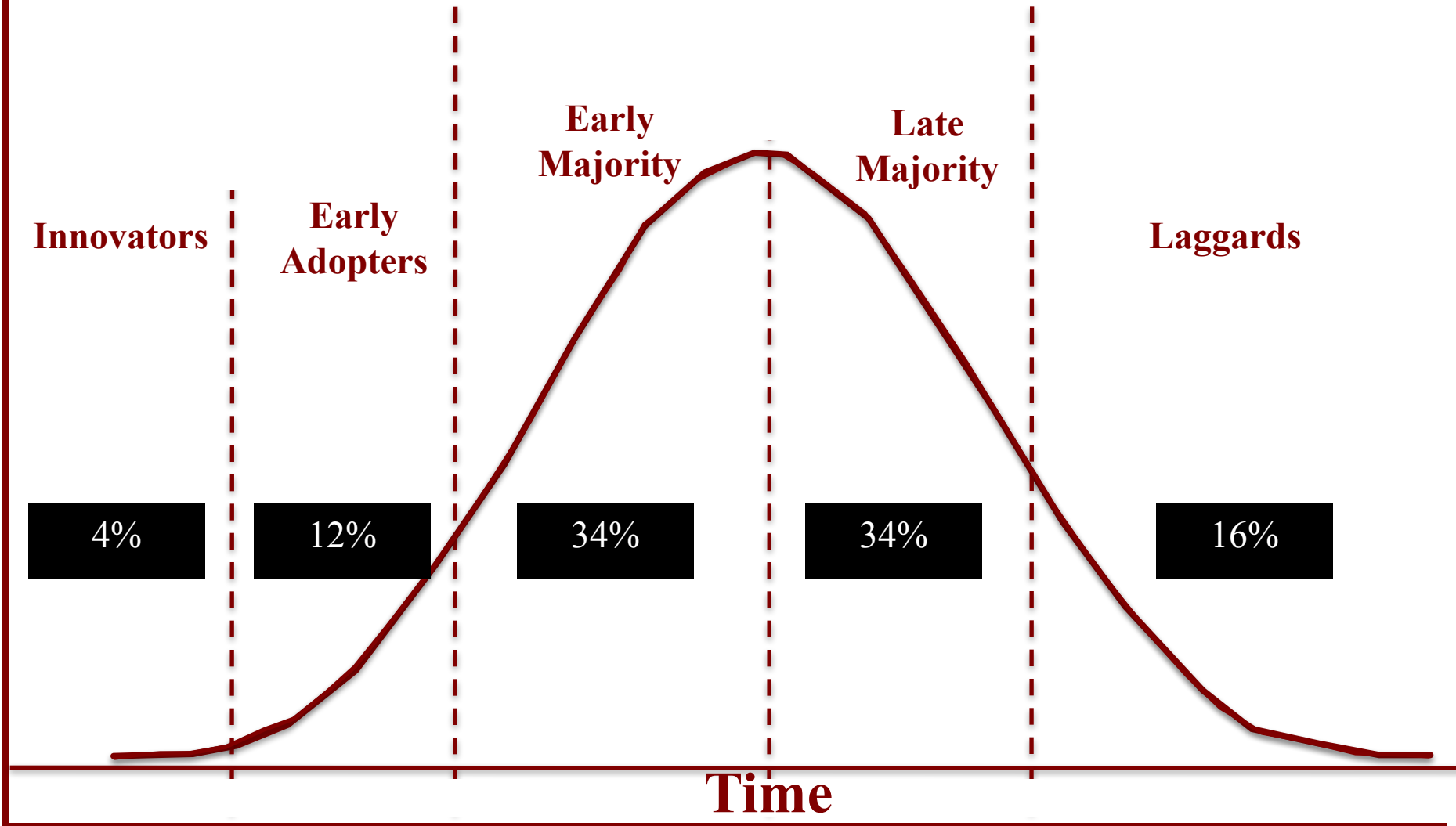
Profitability

Can I Make Money Doing This?

1. **Net Present Value**
2. **Internal Rate of Return**

Feasibility

Can I Afford To Do This?

1. **Cash Flow Analysis**
   - **Year to cash flow**
   - **Payback period**
   - **Costs to implement**

Develop a 5-Year Business Plan

with Specific Goals and a Method to Benchmark Your Progress

Assess your Current Operation – BE HONEST!

1. Orchard Blocks

2. Financial Position

Developing a 5-Year Business Plan

1. **Orchard Blocks**

Based on your goals:

- *Which blocks have net returns (after paying harvest costs) that cover production and fixed expenses?*

- *Which blocks are contributing to an increase in net farm income of at least 5% annually?*

- *How does a block "fit" in your harvest season? How does it improve efficiencies, utilization of labor and future technologies?*

- *New blocks, is it designed to adequately acquire and retain labor? Is this the type of block that workers will make money?*

Increasing Working Capital

Assumptions:

200 acres	Harvested acreage of orchard
- 50 acres	25% of this acreage does not cover $2,500/acre production expenses
150 acres	Remaining acres

Remove before harvest	Remove after harvest	
2017:	**2017:**	
$500/acre	$500/acre	Costs to remove trees, no other expenses
$2,500/acre	$0/acre	Savings of not investing in an unprofitable orchard
$ 100,000	$ (25,000)	
2018:	**2018:**	
$800/acre	$800/acre	Remove roots, rip, disk and maintenence costs
$2,500/acre	$2,500/acre	Savings of not investing in an unprofitable orchard
$ 85,000	$ 85,000	
2019:	**2019:**	
$300/acre	$300/acre	Maintenence costs
$2,500/acre	$2,500/acre	Savings of not investing in an unprofitable orchard
$ 110,000	$ 110,000	
$ 295,000	$ 170,000	Increase in working capital

2. Financial Position

FIVE Key Financial Ratios and Performance Measures

1. Current Ratio

Current Assets ÷ Current Liabilities (Current Assets - Current Liabilities)

2. Working Capital to Total Farm Expenses

Working Capital / Total Farm Expenses

3. Debt-to-Asset Ratio

Total Liabilities / Total Assets

4. Profit Margin

Net Farm Earnings ÷ Total Farm Revenues

5. Value of Farm Production to Liabilities

Total Farm Revenues / Total Farm Liabilities

Financial Position

Tree Fruit Producers with Gross Revenues of > $2m

	Current Ratio	*Working Capital to Total Farm Expenses*	*Debt-to-Asset Ratio*	*Profit Margin*	*Value of Farm Production to Liabilities*
Upper Quartile	6.21	1.31	47.0	30%	1.61
Median	3.26	0.74	35.0	14%	0.95
Lower Quartile	1.88	0.42	19.0	4%	0.53

**Information provided by *Northwest Farm Credit Services*, Craig Shindler, Branch Manager, Sunnyside, WA.**
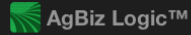
www.agbizlogic.com

What is *AgBiz Logic?*

AgBiz Logic (ABL) is a suite of economic, financial, environmental and climate change decision-support tools that enable producers to increase or assess profitability while assessing environmental trade-offs.

AgBiz

AgBiz Logic Platform

Data is Always in Season.™
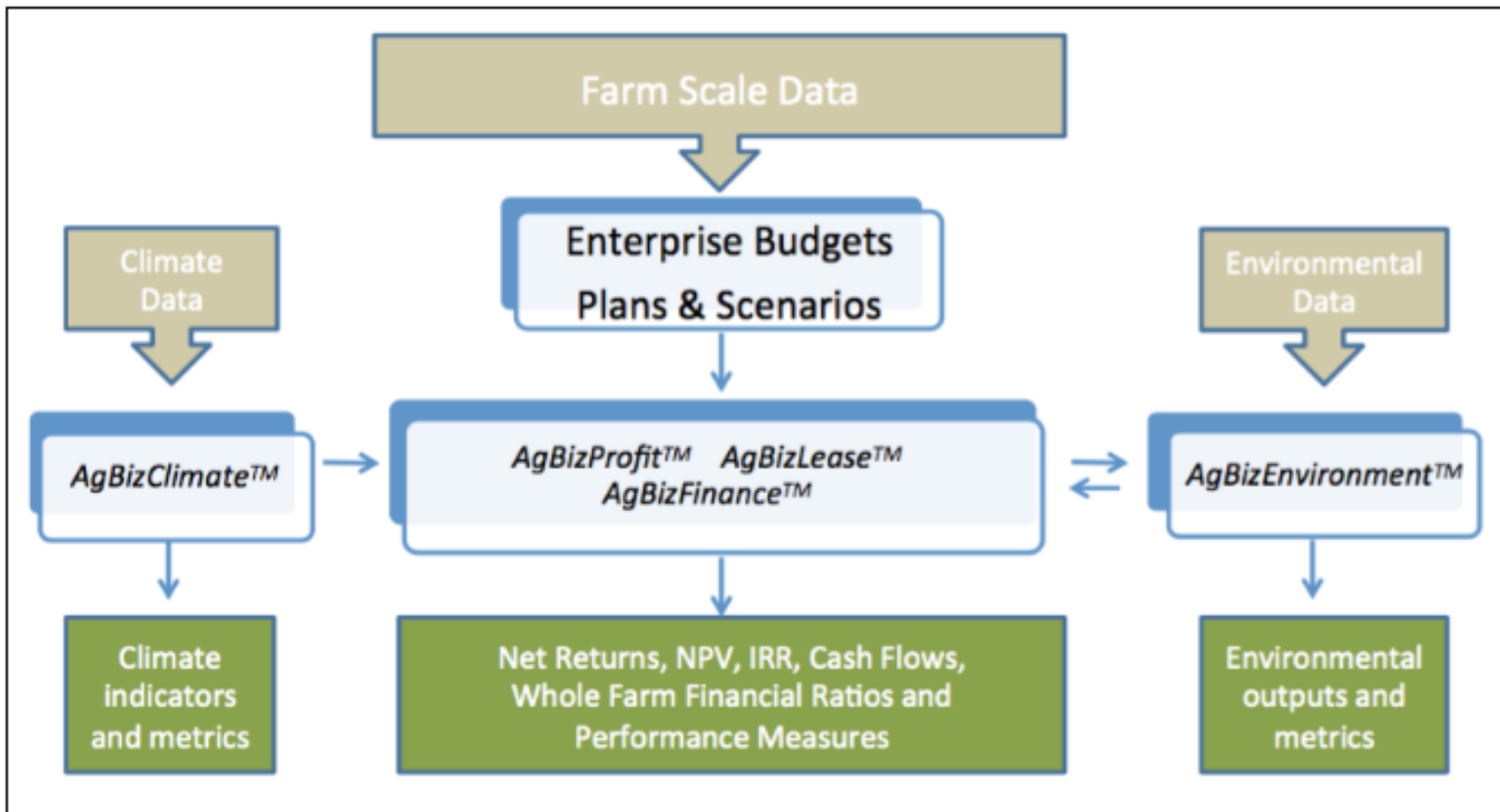
Farm-level Data is "King" in *AgBiz Logic*

o Cost and return (enterprise) budgets are the foundation of *ABL*
o Three methods of data collection within *ABL:*
  - ✓ Schedule F (Form 1040) Federal tax returns
  - ✓ Import data from accounting system via .csv/.exe files
  - ✓ University & industry enterprise budgets

AgBiz Logic™

Transfer your business data to *AgBiz Logic*

The first step toward utilizing *AgBiz Logic* decision tools is to populate *AgBiz Logic* with income and expense data generated from your business. Once this information is entered, you'll be able to allocate income and expenses to create enterprise budgets for personalized scenarios.

We provide three methods for collecting your business data. Select one from the list below, and proceed through the steps provided.

○ Enter information from your Schedule F/Form 1040

○ Import data from your accounting system or spreadsheet

○ Select existing University Budget(s) (if you don't have your own data)

Business Allocation

Income

Category	Total	Crop ⑦	Livestock ⑦	Whole Farm ⑦	$ or % ⑦
Sales of livestock, produce, grains and other products	$3,800,000	$ 3,000,000	$ 800,000	$0	**%**
Cooperative distributions received	$3,000	$ 0	$ 0	$3,000	**%**
Agricultural program payments	$60,000	$ 60,000	$ 0	$0	**%**
Commodity Credit Corporation	$0	$ 0	$ 0	$0	**%**
Crop insurance proceeds and federal crop disaster payments	$200,000	100 %	0 %	$0	**$**
Specified custom hire (machine work) income	$150,000	$ 0	$ 0	$150,000	**%**
Other income	$12,500	$ 0	$ 0	$12,500	**%**

AgBiz Logic™

Allocate your enterprise information

Follow the prompts to specify your enterprises, assigning attributes such as Type, Class, and Commodity.
You can add as many types of enterprises as needed by using the "Add" button.
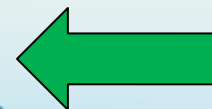
Choose your enterprise

Select an Enterprise	Crop
Enterprise Type	Tree Fruit
Commodity	Cherries
Class/Variety	✓ –Select–
	Sweet, Benton
	Sweet, Bing
	Sweet, Chelan
	Sweet, Lapins
Market	Sweet, Other
	Sweet, Pollinizers
	Sweet, Rainier
	Sweet, Regina
	Sweet, Royal Ann
	Sweet, Skeena
	Sweet, Sweetheart
	Tart, Amarelle
	Tart, Montmorency
	Tart, Morello

Your enterprises so far:

Enterprise	Enterprise Type

Back

Data is Always in Season.™

AgBiz Logic™

Allocate your enterprise information

Follow the prompts to specify your enterprises, assigning attributes such as Type, Class, and Commodity.

You can add as many types of enterprises as needed by using the "Add" button.

Choose your enterprise

Select an Enterprise	Crop
Enterprise Type	Tree Fruit
Commodity	Cherries
Class/Variety	Sweet, Bing
Market	✓ -Select-
	Conventional
	GMO
	Local
	Natural
	Organic
	Other

Your enterprises so far:

Enterprise	Enterprise Type	Production/Commod

Back

AgBiz Logic™

Allocate your enterprise information

Follow the prompts to specify your enterprises, assigning attributes such as Type, Class, and Commodity.

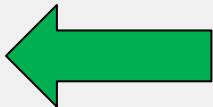You can add as many types of enterprises as needed by using the "Add" button.

Choose your enterprise

Select an Enterprise   [Select ▼]

[Add]

Your enterprises so far:

Enterprise	Enterprise Type	Production/Commodity Type	Class	Market	Actions
Crop	Tree Fruit	Cherries	Sweet, Bing	Conventional	Delete

Enterprise Type	Production/Commodity Type	Class	Market
Tree Fruit	Cherries	Sweet, Bing	Conventional

Enterprise Budget for Bing Cherry, can be at the block level!

Fresh Sweet Cherries, Full Production

Please fill out the following information about this budget

Budget Name:

Fresh Sweet Cherries, Full Production

State: County:

Oregon   North Central

Budget Unit:

1   Acre

Length of Time for this Budget: Time Periods for this Budget:

Year   1

Notes:

This enterprise budget estimates the typical per-acre costs associated with establishing and producing high-density sweet cherries in Wasco County. It should be used as a guide to estimate actual costs and returns and is not representative of any particular farm. Source: http://arec.oregonstate.edu/oaeb/files/pdf/AEB0032.pdf AEB 0032, May 2012. (copy of Fresh Sweet Cherries, Full Production)

Income

Gross Return	Unit Sold by/as	Quantity Sold	Price per Unit Sold	Total Value	
Fresh Sweet Cherries	Pound	14,000.00	$0.85	$11,900.00	Edit
Total Gross Returns				$11,900.00	

Add New

General Cash Costs

Name	Unit	Quantity	Price per Unit	Total Cost	
Chemicals	Acre	1	$543.00	$543.00	Edit
Custom Hire (machine work)	Acre	1	$115.00	$115.00	Edit
Depreciation and Section 179 Expenses	Acre	1	$582.07	$582.07	Edit
Fertilizers and Lime	Acre	1	$220.00	$220.00	Edit
Gasoline, Fuel, and Oil	Acre	1	$434.29	$434.29	Edit
Insurance (other than health)	Acre	1	$35.00	$35.00	Edit
Interest on Loans and Mortgages	Acre	1	$81.84	$81.84	Edit
Labor Hired (less employment credits)	Acre	1	$4,239.50	$4,239.50	Edit
Machinery, Equipment, or Vehicle Rent or Lease	Acre	1	$420.00	$420.00	Edit
Other Expenses	Acre	1	$125.00	$125.00	Edit
Property Taxes	Acre	1	$60.00	$60.00	Edit
Repairs and Maintenance	Acre	1	$355.32	$355.32	Edit
Seeds and Plants	Acre	1	$21.00	$21.00	Edit
Supplies	Acre	1	$248.00	$248.00	Edit
Utilities	Acre	1	$60.95	$60.95	Edit

Totals

Total Gross Returns	$11,900.00
Total Costs	$7,540.97
Net Returns (income minus costs)	$4,359.03

Save Cancel

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Questions or Comments!