

Costs and Returns

Profit-Driven Decision Making



Irrigated Crop Production Update
Lethbridge, AB
January 12, 2010

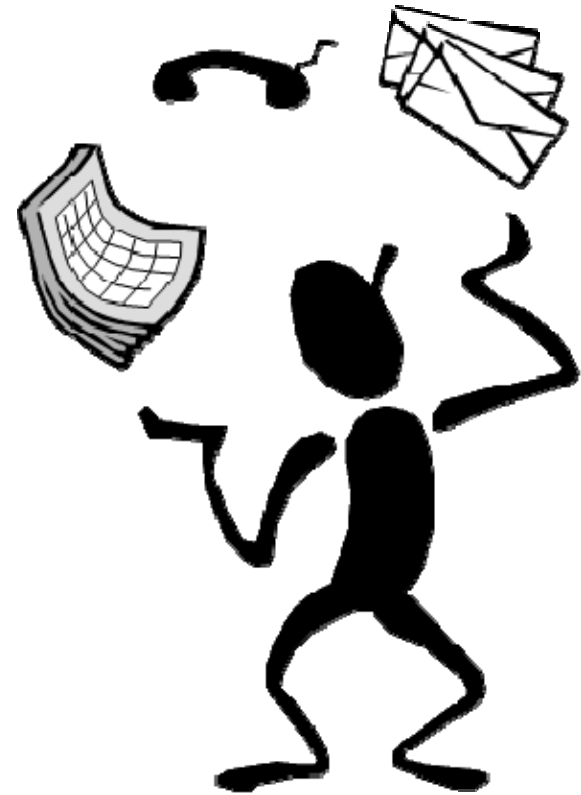
Karla Bergstrom
Production Crops Economist

Agenda

- **Profitability**
- **Cost of Production (COP)**
- **CropChoice\$**

Good management information is the first and most important step in managing for profitability.


$$\pi = R2E$$



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Irrigated Feed Barley 2006-08 (108 bu/ac)

	\$/Acre	\$/Bushel
Value of Production	454.68	4.21
Seed	13.45	
Fertilizer (110 N, 17P)	65.17	
Chemical	26.01	
Crop Insurance	13.20	
Trucking & Marketing	18.85	
Fuel	23.36	
Irrigation Fuel & Electricity (6.2" water)	14.42	
Repairs (Machine & Buildings)	21.96	
Utilities & Misc	22.76	
Custom Work	16.89	
Paid Operating Interest	1.36	
Labour (Paid and Contributed)	20.90	
Variable Costs	258.33	2.38
Rent	xxx.xx	
Taxes, Water Rates, Lic. & Insurance	10.40	
Depreciation/Cap. Lease	50.58	
Paid Capital Interest	9.76	
Total Capital Costs	70.74	0.66
Cash Costs	264.13	2.45
Total Production Costs	329.07	3.05
Gross Margin	190.55	1.76
Return to Equity	125.61	1.16

32% of TPC

Why do farmers grow crops?



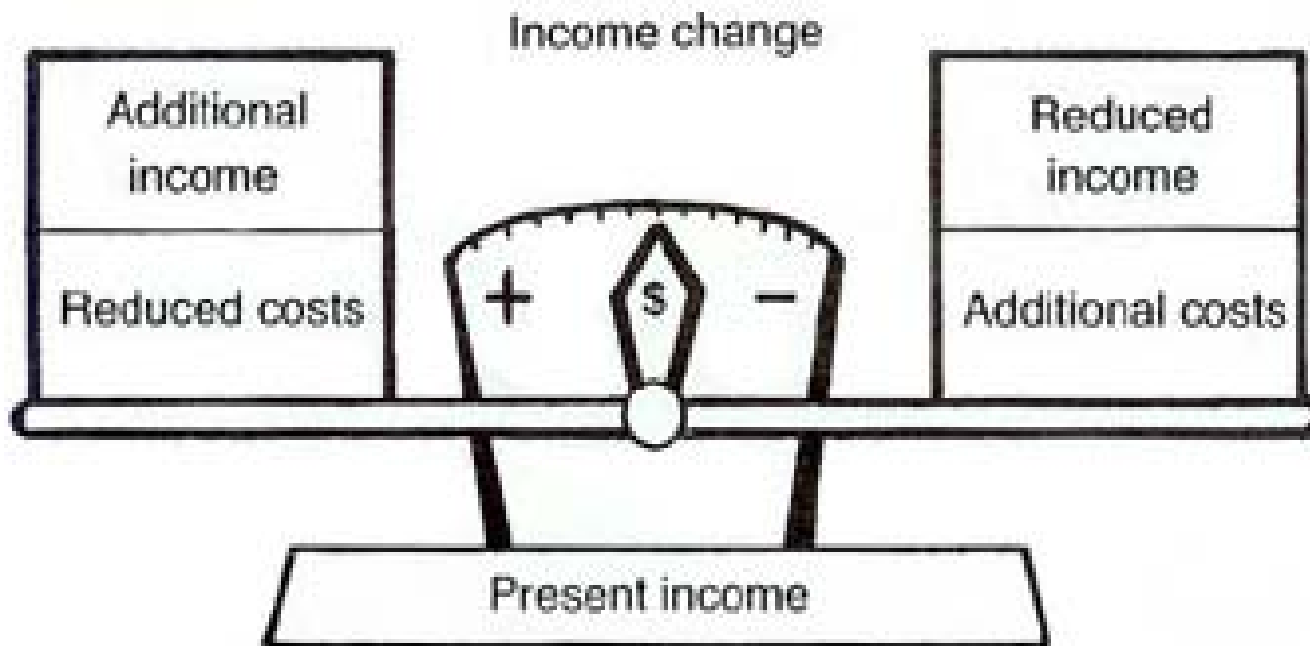
Products & Services need to make
Money \$\$

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"I agree, it's a lot of bang for the buck.
And thumping, whining, clicking, clacking,
clanging, grinding, buzzing and rattling."

Evaluating Profitability





Profitable

Affordable

Desirable

“X” Rated



Why look at COP?

Because it answers the question...

“Did I make any **money \$\$\$**?”





**Business
Management**

Production

Mature Business Strategy:



unit production costs



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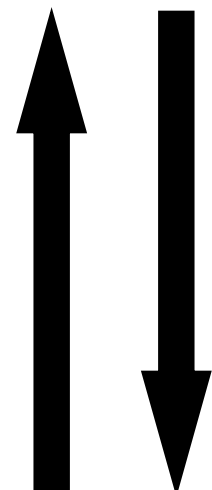


AgriProfit\$

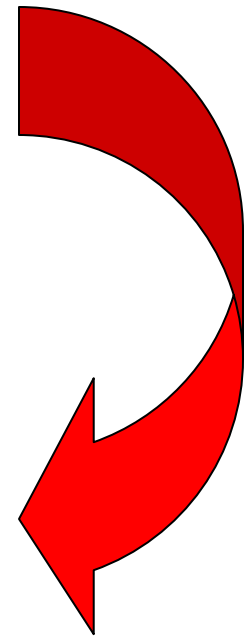
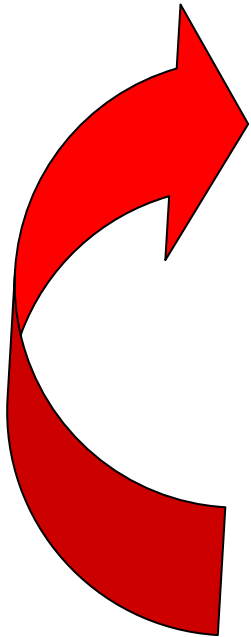
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COP = historic analysis



Budgeting = looking ahead

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Scenario #: 1 | Base - Katepwa

PB_CARA_Wheat v1

	Field # 1	Field # 2
Field Description	Field 1	Field 2
Acres	50	50
Crops *	wht_hrs	wht_hrs
Stubble, Fallow or Irrigated	Stubble	Stubble
Unit	Bushels	Bushels
Worst Possible Yield/Acre *	35.7	35.7
Best Possible Yield/Acre	48.3	48.3
Most Likely Yield/Acre	42.0	42.0
Worst Possible Price *	4.25	4.25
Best Possible Price	5.75	5.75
Most Likely Price	5.00	5.00
Crop Insurance	<input type="checkbox"/> CI	<input type="checkbox"/> CI
Spring Price Endorsement	<input type="checkbox"/> SPE	<input type="checkbox"/> SPE
Coverage Level		
Individual Base Coverage *		
Seed *	19.50	19.50
Fertilizer	67.50	67.50
Chemicals	30.50	30.50
Crop Insurance Premiums		
Trucking & Marketing	6.00	6.00
Fuel, Oil & Lube	12.00	12.00

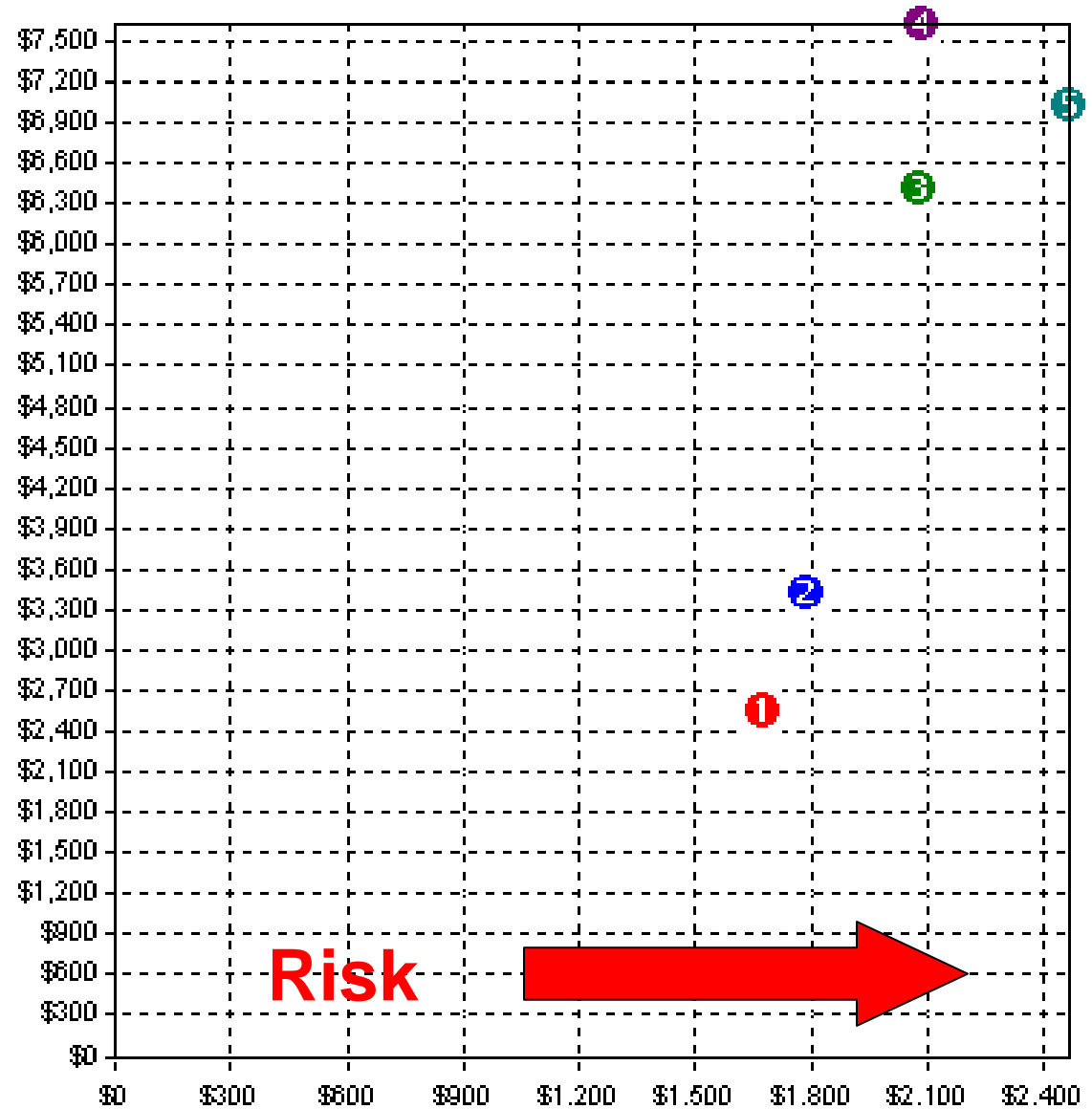


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Which do you choose? ...

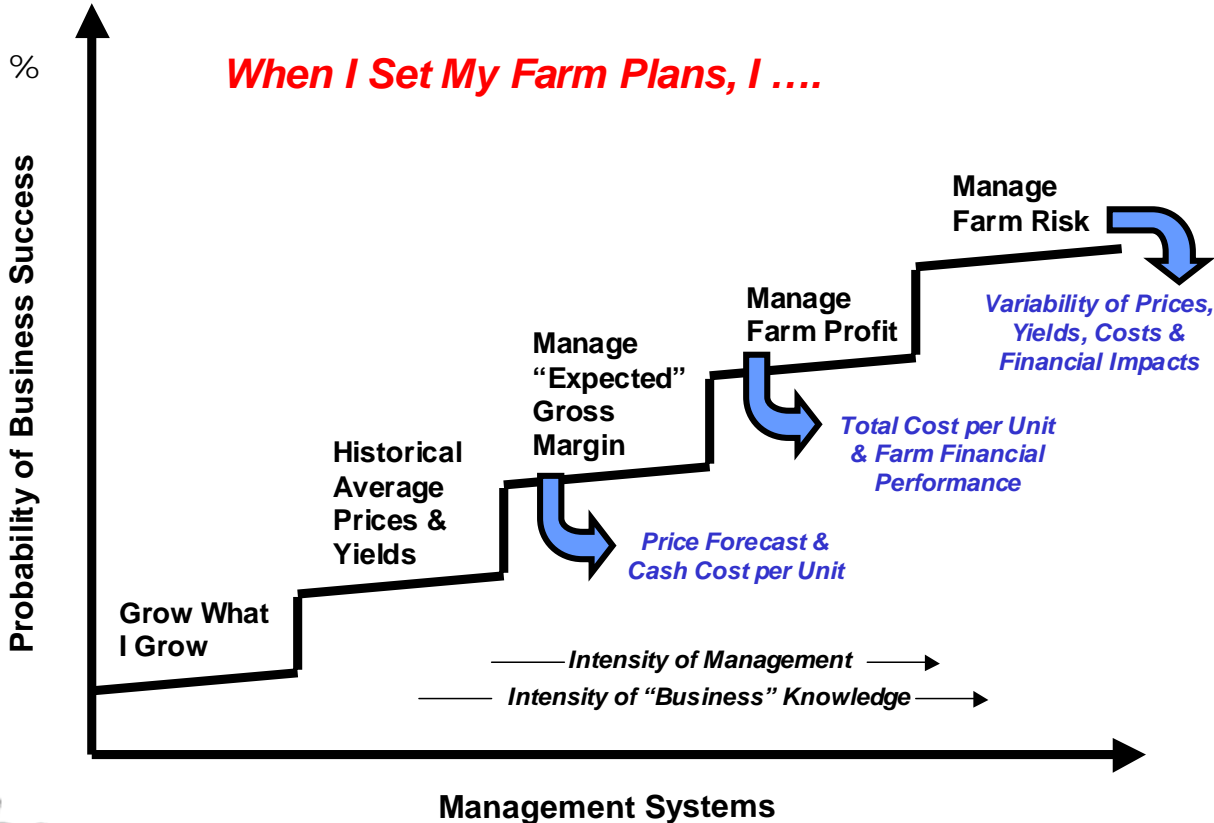
Return ↑



Risk →

Role of Management Information

Management Systems & Associated Probability of Business Success



Questions / Comments

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