

Cost of Production Project:

WHOLE FARM FINANCIAL RATIOS

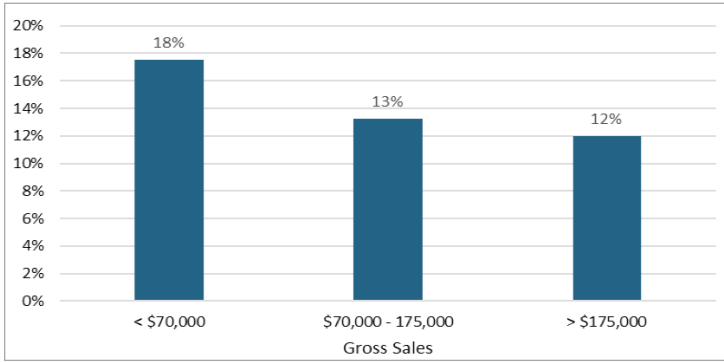
Over the course of the 2016 season, 30 organic vegetable farms in Vermont, New Hampshire, and Massachusetts tracked and analyzed their costs of production. This factsheet presents some key financial metrics that were aggregated as a result of their work.



Have you ever looked at your big picture financials and wondered how you compare to other farms with similar gross sales? What is the typical amount spent on labor? Are your overhead costs too high? How much money is reasonable to spend on marketing?

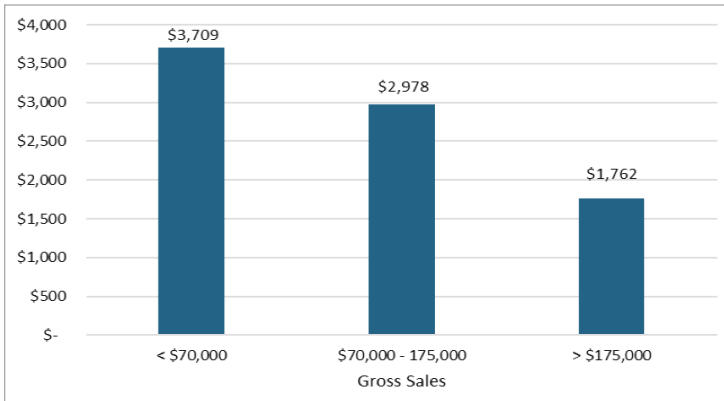
This data from the 2016 season is aggregated from 27 farms. Farms' gross sales are broken into three ranges, with at least 8 farms in each range. Compare your farm to others and then think critically about what that means for your business and what changes could improve your profitability.

Overhead Expenses as % of Gross Sales



Overhead expenses, also called fixed or operating costs, are defined as expenses a farm incurs without a direct link to level of production. Each crop or enterprise needs to contribute part of their gross profit to pay for overhead expenses.

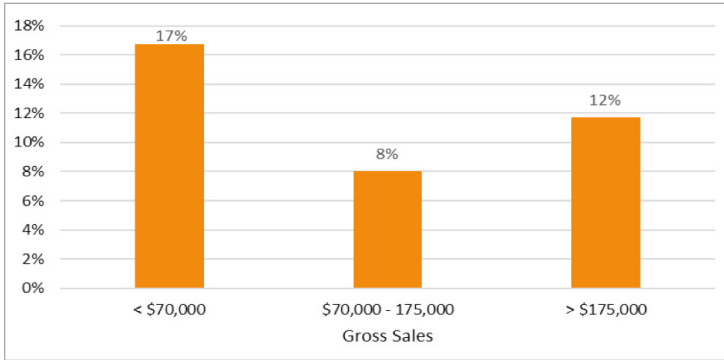
Overhead Expense/Acre



Farms with the highest gross sales tend to be larger, resulting in their overhead costs spread out over more acres.

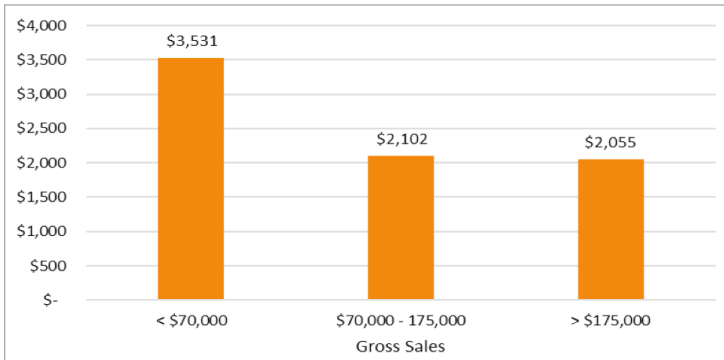


Marketing Expenses as % of Gross Sales



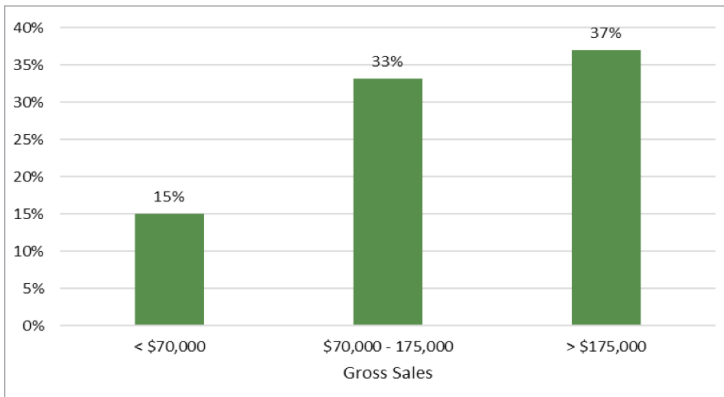
Marketing expenses include the full cost of sales by market channel, from the point the crop is harvested and packed until it is sold.

Marketing Costs/Acre



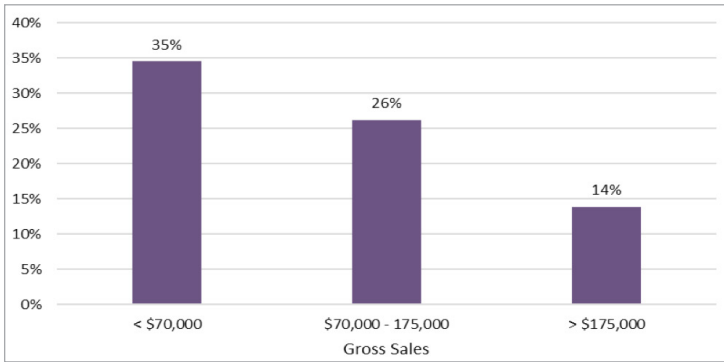
Market channel mix, farm size, and stage of business affect farms' total marketing costs. Farms with higher gross sales tended to spend less on marketing per acre due to having more wholesale accounts, more acreage in production, and an established reputation.

Paid Labor as % of Gross Sales



Paid labor rates represent the full cost of hired labor including hourly rate, taxes, and workman's comp. As a general rule, if paid labor as a percent of gross is 40% or greater, labor efficiency is an issue and it is likely profitability could be improved by mechanizing part of the production process.

Net Profit as % of Gross Sales



Net profit is defined as total sales minus all expenses, including overhead and marketing expenses. High gross sales with low net profit can still provide sufficient income to the farmer.



This project is a collaboration of:



This project was designed to help farmers strategically increase the profitability of their farm businesses. To learn more, download our cost of production workbook, or request technical assistance in calculating your own crop-specific cost of production, visit www.nofavt.org or contact Jen Miller, (802) 434-4122, jen@nofavt.org.

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