Veggie Compass

Whole Farm Profit Management System

User Manual

2016

Pointing you on the path toward profitability

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SOUTHERN SUSTAINABLE AGRICULTURE WORKING GROUP
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A pdf copy of this User Manual is vailable at veggiecompass.com

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Note: for your convenience, you may click on the linked page numbers below to jump to the section you want to read (this only works in the spreadsheet, not the printed pdf file)

This manual was originally written by Rebecca Claypool at the University of Wisconsin Madison. It has been edited by staff of Southern Sustainable Agriculture Working Group (Southern SAWG) and john Hendrickson at the University of Wisconsin to fit newer versions of Veggie Compass. Funding for this new edition was provided by the Southern Risk Management and Education Center. Further edits and additions have been made by John Hendrickson at the University of Wisconsin-Madison.

Section 1: General Information on Veggie Compass

Overview

Veggie Compass is a whole farm management approach for diversified fresh market vegetable growers. The system focuses upon a comprehensive financial spreadsheet designed to facilitate the analysis of farm records. Using cost, sales and labor data, the system calculates the cost of production for each product, the profitability of each product, and the profitability of each market channel (CSA, farmer's market, wholesale, retail). For example, a grower can learn if broccoli sales are more lucrative at farmers markets or through wholesale distributors, or if their CSA is more profitable than their farm stand. Such cost of production information can help farmers locate inefficiencies, set prices based on cost of production for each market channel, and increase farm profits. Once a user has one year of data as a baseline, the tool can also be used to predict the outcome of different farm scenarios and assess progress toward financial goals.

Ideally, a grower using Veggie Compass will use the tool to analyze their entire farm enterprise including all their crops or products and all their markets. However, if a person wanted to only investigate the profitability of one crop or handful of crops, this is also possible. Instructions for how to do this are included below (page 10). Note that it is best to think in terms of products when using Veggie Compass, instead of crops because this gets you to a more detailed look at your business and your profitability. If you sell carots by the bunch and in bulk at market and also through wholesale channels in set case sizes, it is best to track the profitability by those different products since they will have different costs and prices.

Six spreadsheets in this Veggie Compass Excel file work together, as the user inputs data, to provide a full picture of farm finances. As the user enters data in the first three spreadsheets, calculations automatically occur in the next 3 spreadsheets to provide critical information about where money is being made or lost and how to control this.

The data entered into this recordkeeping system is year-end data. To accumulate the data needed for Veggie Compass, the user will need to use records kept in other formats during the year (notebooks, accounting ledgers, planting maps, harvest records, Quickbooks, etc).

Can Veggie Compass by editted or modified? It is okay to change a cell with ***text*** content, **BUT WE URGE CAUTION**. Do not change any cells that have formulas in them. If you need to change the name of your market channels, change those on the Step 1- Expenses Input page **ONLY** and they will automatically be changed on the rest of the sheets. Or, you might want to change text for an expense line item. To make changes, first unprotect the sheet by finding "Tools" in your menu bar, click on "Protection", click on "Unprotect Sheet". The password is "vc2016". ***If you must make changes, make your edits and then immediately protect the sheet again by going to "Tools" in your menu bar, click on "Protection", click on "Protect Sheet" and type in the same password: "vc2016".***

Background

The Veggie Compass project originated from a partnership between the University of Wisconsin-Madison and Jim Munsch, an organic farmer in Wisconsin. Following business management discussions with farmers, Jim began developing a cost analysis spreadsheet to help fresh market vegetable growers improve their farm profitability. In 2006, Jim and a team of researchers at UW-Madison joined forces and secured funding to develop a user friendly spreadsheet. The researchers worked with a committee of diversified vegetable growers to help identify limitations in farm business planning and assess the spreadsheet as it was developed.

In 2011, Southern Sustainable Agriculture Working Group (Southern SAWG), in collaboration with Jim Munsch and Ellen Polishuk (VA farmer), began a series of farm profitability trainings, utilizing the Veggie Compass system. The Veggie Compass spreadsheets were modified by Southern SAWG over the next two years based on farmer feedback to make the system more robust and more easily understood by farmers.

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Section 2: How to Use the Spreadsheet

A series of excellent training videos have been produced for Veggie Compass by the Southern Sustainable Agriculture Working Group! Check them out here:

http://www.ssawg.org/gfp-veggie-compass/

The Veggie Compass spreadsheet is designed to allow for an intuitive system for data organization. In Step One, users enter all farm expenses on one spreadsheet. In Step Two, all sales information is entered on a second spreadsheet. In Step Three, users enter seed cost, number of transplants, acreage and crop-by-crop labor hours on a third spreadsheet.

The spreadsheet then uses the data from these three input pages to calculate each crop's cost per unit, breakeven price, gross margin, unit net profit and crop net profit by market channel. Growers can use the tool to see which market channel (wholesale, farmer's market, etc.) is most profitable and which crops are best suited for each channel. This holistic farm financial tool facilitates more informed management decisions to increase profitability. Farmers can learn what adjustments they need to make in terms of crops they grow, quantity of each crop, the market channels through which they sell each crop, pricing for each crop in each market channel, and identify where they need to control expenses.

Note: The values entered in the Veggie Compass spreadsheet will most likely not be same as values generated for tax purposes. With Veggie Compass, users can record expenses in a more detailed way than they would need to for the IRS. Veggie Compass will create a more complete financial picture that is more useful for planning purposes.

Getting Organized

The first step in using the Veggie Compass spreadsheet is to assemble all the information you will need in order to populate the spreadsheet.

- Farm expenses – *Step 1*
- Farm sales by crop and by market channel – *Step 2*
- Quantity of each crop sold in each market channel – *Step 2*
- Seed (and purchased transplant) costs for each crop – *Step 3*
- Number of transplants grown in the greenhouse for each crop – *Step 3*
- Field growing area of each crop and total area – *Step 3*
- Hours spent in field production for each crop – *Step 3*
- Hours spent harvesting & packing for each crop – *Step 3*
- Hours worked greenhouse – *Step 3*
- Not Crop Specific (NCS) hours spent in field growing and harvesting & packing – Step 3
- Crop-specific costs for field production – *Step 3*
- Crop-specific costs for harvest & packing – *Step 3*

Most of the documents you will need can come from your farm accounting program such as the farm expenses, crop sales, and income by different market channels. The growing information can be pulled from farm planning/planting records. Production labor can be gathered from detailed payroll records or other labor records. Forms for gathering crop-by-crop labor data are available from the Veggie Compass website (direct link below). Once all of your documents are in order, you can begin compiling total values to enter into the Veggie Compass spreadsheets.

www.veggiecompass.com

Gathering Crop-by-Crop Labor Data

Growing vegetables requires a lot of long, hard work. Whether you are doing the vast majority of the work yourself or have a hired work crew, labor is always the biggest input. But where, exactly is most of your time (and employee time) being spent?

For many, tracking labor may seem like a time consuming, onerous...perhaps even impossible...task. However, keeping track of what you do on your farm can be extremely instructive and useful, especially as you look back collectively on the previous season. Where most of your time is being spent can be a good indication of where you need to develop better systems, purchase a tool to help with a task, hire additional outside labor or utilize additional household labor, or make other decisions.

One simple way to track labor is to keep a daily diary. This can be filled out at the end of the day or perhaps twice a day when you take breaks for meals. Keeping precise records may not be realistic or necessary so long as you get a reasonably clear picture of how much time you spend on different crops and tasks. This diary can also be an excellent place to record weather information, make note of pest or disease observations, make to-do lists for the next day, or simply record reflections and observations you make while working.

For employees, it is highly recommended that you make recording labor hours by crop part of their responsibility in reporting their work hours for payroll purposes. **The Veggie Compass team at the University of Wisconsin created some forms to assist with this process and they are available from the veggiecompass.com website.** Other growers utilize their own paper or computer-based forms. Increasingly, there are applications for computers, tablets, or smartphones that can help with labor data collection. **See the "Resources" page of the veggie compass website for a video tutorial on using Google Doc Forms to record labor data.**

Again, the bottom line is that labor costs will always be the largest input and expense on any vegetable farm. Knowing some specifics about labor is one step toward developing a profitable and enjoyable farm.

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Because labor data by crop can be difficult for growers to gather, the Veggie Compass team conducted research with working farm to develop "proxy" values that could be used in lieu of a users own data. However, labor by crop varied considerably from farm to farm, excentuating the need for individual farms to know their own labor inputs and use this data to better understand costs and price their products appropriately.

What if I simply do not have labor data…is there a way for me to still use Veggie Compass?

If you do not yet have labor data by crop, you can certainly estimate time by crop. Remember that the quality and value of the information you get OUT of Veggie Compass is directly linked to the quality and validity of the data you plug INTO the worksheets.

To estimate labor by crop, we recommend listing all the field growing tasks associated with each crop (seeding, transplanting, watering, weeding, trellising, mulching, pest management, etc.) and thinking about the total number of times you performed each of those tasks and an estimate on the amount of time each task requires. A separate spreadsheet tool, called the "**Crop Labor Estimation Workbook**," is available to help with this task on the Veggie Compass website. Be wise and "generous" with your estimates! Next, think about the amount of time required for harvest, post-harvest handling and packing each crop and the number of times you harvested each crop.

As a "check" of your estimates, compile your crop-by-crop estimates and compare the total with what you consider to be the total amount of time involved in running your farm (your own labor plus all hired/bartered labor). If the results are extremely different you need to make some adjustments. It is likely best to include some "not crop specific" time to each crop to account for general field growing activities such as mowing field borders or putting up temporary electric deer fence, etc.

We also recommend gathering some basic information about your farm in terms of labor inputs. Spend a small amount of time tracking the amount of time it takes to do tasks that are done over and over on your farm such as: seeding a flat in the greenhouse, transplanting a given number of plants or a certain number of row feet, harvesting a 100 pounds of carrots or 100 heads of lettuce, packing CSA boxes, cleaning up the pack shed at the end of harvest day, making deliveries, etc. Knowing such numbers can not only help you build crop labor estimates for Veggie Compass but can also provide useful information for training employees, setting expectations, or monitoring your work crew over the season.

Section 3: Entering Data in the Three Input Sheets

In Veggie Compass, there are certain cells with a predetermined formula in them. For example, in a "Total" cell you'll notice that it has been predetermined what data will be included in the Total. As you enter data, you'll see the Total change. You can click on that cell to see, in the dialog box at the top of your screen, the formula used to create the content of the cell– to see what data is being included in the total. The formulas are the meat of this file and are what makes it simple for you to get from your data the information you need to make smart decisions. *Do not worry about deleting these important formulas. We have locked the cells that contain formulas so that you cannot accidentally change them.*

It is okay to change some cells with ***text*** content, but we urge caution. You do not want to change any cells that have formulas in them. If you do need to change the name of your market channels, change those on the Step 1- Expenses Input page ONLY and they will automatically be changed on the rest of the sheets. If you need to change text in an expense line item, we have left unprotected the cells that you may safely change. The labor and total cells are locked.

As mentioned above, we urge you not to make changes to protected/locked cells, but just in case you have some need we have not foreseen and you are a skilled Excel user, the password to unprotect the sheets in this version is "vc2016". We repeat: The formulas are the meat of this Veggie Compass file. You do not want to change any cells that have formulas in them, as this will change the functionality of the spreadsheets.

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Step 1: Expenses Input Sheet

Step 1 is similar to a schedule F tax form, in that users organize their farm expenses by categories. In addition to entering total costs for each expense category, the Veggie Compass tool requires that all expenses are distributed over the various activities of the farm business as appropriate. Things to remember – Labor costs should NOT be entered in the Seed, Greenhouse, Field Growing and Harvest & Packing columns. All labor expenses associated with crop production should only be entered in the Production Labor column. All other labor such as time spent at farmers market, office work, equipment maintenance, etc., can be distributed over market channel, general management, repairs, etc. Some columns have reminder comments about what to enter in them; hover over the column title to view the comment identifiable by the red triangle in the upper right corner.

1) Set up the names for your market channels – where you sell and distribute produce. The CSA and the Resale channels are locked due to special formulas that appear elsewhere in the system. But the other cells with market channel titles are not locked and can easily be changed on this first sheet. Change names of market channels ***only*** on the Step 1 Expenses Input sheet. These changes will auto-fill on the subsequent sheets.

2) Make any changes you need to make to the expense line items to make them fit your needs. To maintain the integrity of the formulas in the output spreadsheets, we have locked the Labor line items and we have locked the sheet so that you cannot add or delete lines. Instead, modify the text in existing lines to better fit your needs.

3) Enter the amount spent for each expense in the Total Cost column, and then allocate that cost to the appropriate farm activities. For example under Wages, take total cost for Clerical & Office labor and distribute it over General Mgnt. & Admin, and your various market channels (CSA, Farmers Market, etc.) as appropriate. Some expenses such as Fuel may get distributed over many farm activities such as Field Growing, Harvest & Packing and Farmers Market while other expenses may all be allocated to a single activity.

4) For farms that utilize worker-share labor or exchange CSA shares or farm products for services, that labor should be accounted for here. The value of the work exchange labor should be added in the wages section on this sheet. There is a row for worker-share labor where a user can enter the share value bartered. For example if a farm's CSA boxes cost $500, and it has 10 worker-shares who work in the field, and one worker-share who writes the CSA newsletter, then $1000 dollars of labor should be reported in the Production Labor column and $500 should be entered in the CSA market channel column. Similarly the CSA sales will need to be inflated to include the value of boxes given to worker-shares.

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5) If a farm purchases some crops for resale in the CSA, those purchases should be recorded as a CSA market channel expense, and not as Buy/Resale. Items should only be recorded as Buy/Resale items if they are resold as the same product they were purchased.

6) Farms that purchase seedlings instead of starting their own transplants, should record that cost as a seed cost. That value should appear within the Seed column, and not in Greenhouse.

7) As costs are allocated across the farm business the "Check" column to the right shows if there is a discrepancy in the amount entered in the Total Cost column and the amount/s allocated. If there is a value above or below zero in the Check column then recheck your calculations. The Check column will show $0 when all costs are accounted for accurately.

8) If land and facilities are rented this is a straightforward entry in line 77. It is the tax-deductible, cash expense of the rent payment for land and farm-use facilities (specifically excluding the portion that relates to personal residence or other non-farm use).

9) If land and facilities have been procured with borrowed money **(a mortgage**), tax regulation will allow deduction of the interest only and that should be included in line 77. If you have both a mortgage plus rental land, add the two items together and enter in line 77.

10) To assure sufficient operating profit to cover debt (interest **and** principal mortgage payments), you may elect to include the amount of principal payments pertaining to land and facilities related to farm activities in line 77. For example, you might decide that your farm is “responsible” (for the purposes of using Veggie Compass) for 33% of your principal mortgage payments annually. It is important to recognize that this deviates from a cash based tax system but is one way for assuring sufficient operating profit to cover debt.

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Step 2: Sales Input Sheet

In Step 2, all farm income is reported by crop (or product) and market channel. A user will find this data from looking back through sales receipts/invoices, CSA logs, Market logs, and bank account statements. On this page you will select your crops and unit of measure for each. This data will auto-fill on the subsequent sheets.

1) Enter the crops in the Crop column and choose a unit of measure such as pounds, bunches, heads, etc. for each crop. Crops that need to be tracked in different units should be entered as separate crops. In fact, it is likely best to think in terms of products you sell, rather than crops. If you sell carrots by the bunch at market and by the case to retail stores, include 2 rows, one for each product. **If you only want to use Veggie Compass to analyze one crop or a subset of your crops**, list those crops/products and then include a row for "all other crops/products." You will need to know the total sales for "all other crops/products" to complete this page. Later, in STEP 3, you will also need to be able to allocate labor and other expenses to either the crops that you have chosen to analyze OR to the "all other crops/products" category that you are creating in this step.

2) Before entering individual crop sales data, you'll need to enter data in some of the cream-colored Income boxes to the far right. Some cells will auto-fill once the specific crop sales for each market channel are entered. However, CSA sales, Buy/Resale sales and Other income are manually entered here. Cells in which you need to enter data from outside records are those indicated with **red type**. If shares were given in exchange for labor or services, the CSA income should be inflated to include the values of those shares.

3) Within the CSA section, enter the Calculated Sales for each crop. Often box items are valued at a market price, so enter that value for the total amount distributed of each crop in the Calculated Sales column. The Adjusted Sales column will automatically adjust the crop sales value based on the reported CSA income.

4) Enter the total amount of each crop distributed through the CSA in the Units Sold column.

5) Enter the sales dollars received for each crop in the remaining market channels, as well as the total units sold of each crop. The spreadsheet then calculates the average unit price for each crop within each market channel, and totals all sales and units sold by crop.

6) Total sales for market channels, excluding CSA which has already been entered, are automatically filled in the appropriate cells in the cream-colored box to the far right. Total farm income is now calculated at the bottom of this box.

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Step 3: Production Input Sheet

In Step 3, the user is asked to allocate labor and other expenses by crop.

1) Enter seed costs for each crop in the Seed Cost column. If transplants are purchased instead of raised, enter that cost here. Check that the total Seed Cost in Step 3 equals the total cost of seed in Step 1.

2) Enter the number of transplants raised in the greenhouse for each crop in the # of Plants in Greenhouse column. Only enter the number of transplants you grow. Do not enter a number for transplants that are purchased. These purchased transplants should be reported as a seed cost.

3) Specify the amount planted of each crop in acres, row feet or square feet. You can select among these units from a pull down menu (cell E4). The same unit must be used to measure all crops. Square feet or acres is recommended rather than row feet. If you use row feet, Veggie Compass will not be able to calculate income per unit area (gross and net income per square foot or per acre) on the Sales Output page. If you have a standard bed width and length, it is relatively easy to record each crop's square footage.
NOTE 1: If MULTIPLE cash crops are planted in the SAME area in one season in rotation, enter the area planted, divided by the number of cash crops planted in that area for each crop. This allocates the overhead costs for this land across all crops grown there during the season. For example, let's say you have 100 bed feet where you planted & harvested radishes, scallions, and lettuce. The general costs of owning & maintaining that 100 ft should be shared by the three crops. A simple way to make that happen is to charge each crop 1/3 of the general cost. This can be done by inputing 33 ft for each crop.
NOTE 2: If a SINGLE cash crop is planted in multiple successions in the SAME area in one season, just enter the area planted, regardless of the number of successions planted in that area.

4) Enter labor hours for Field Growing and Harvest & Pack for all crops. For recommendations on gathering or estimating labor inputs see pages 5 and 6 of this User Manual.

5) If there are Field Growing and/or Harvest & Pack supplies specific to certain crops, enter those values in the Crop Specific Cost columns. For example, this allows you to apply the cost of tomato cages to just tomatoes or plastic clamshell containers just used for strawberries or cherry tomatoes.

6) Enter total Greenhouse labor hours, and the Not Crop Specific hours for Field Growing (such as building a fence) and Harvest & Pack (such as cleaning the shed) in the blue boxes to the right.

Production Labor Cost, Cell K4

This is the total cost of PRODUCTION labor (greenhouse, field growing, and harvest & pack), divided by the hours devoted to production based on labor hours entered on the "Production Input" page. Total Production Labor costs include wages but also all other associated costs: unemployment insurance, payroll taxes, meals provided for employees, employee or intern housing, and benefits. Data for this calcaulation comes from the "STEP 1 Expense Input" page.
This per hour value will not equal your hourly pay rate because that rate may vary between workers and this value reflects more than just wages as mentioned above.
This total per hour cost can be used in making decisions to purchase labor saving tools and equipment. For example, let's say a transplanter costs $3000 and we estimate it will reduce overall production labor hours by 100 hours. If the total production labor rate calculated by Veggie Compass in cell K:4 is $20 per hour, then a simple calculation is that you could pay for this investment in a year and a half.

Section 4: Reading the Data in the Three Output Sheets

The remaining three sheets, Cost of Production by Crop, Sales Output, and P&L (profit and loss) by Market Channel are all output pages. The data displayed in these sheets is calculated from the farm data inputted in Steps 1, 2, and 3. Users cannot directly change the data in the output sheets. Instead values in the output sheets will change only as users update their cost, sales and labor data in the previous three input sheets.

Cost of Production By Crop

The Cost of Production sheet displays the cost of each crop at different stages of production. This sheet, on line 3, also provides total expenses for Seeds, Greenhouse with labor, Field Growing without labor, and Harvest & Pack without labor.

First the seed costs are attributed to each crop, then greenhouse expenses (for non-direct seeded crops), then field growing and lastly harvest & packing expenses are assigned to each crops.

In the Greenhouse section, all of the general greenhouse expenses are spread out over all of the crops started in the greenhouse based on the number of plants raised.

In the Field Growing section, the Non Crop Specific labor and general field growing expenses are allocated to the crops based on the space utilized by each crop (acre, row foot, or square foot).

In the Harvest & Packing section the Non Crop Specific labor and general expenses are distributed to all crops based on the amount of harvesting & packing time for each. In other words, the remaining expenses are distributed by the proportion of time reported for harvest & packing for each crop compared to the total harvest & packing labor hours for all crops.

The last two columns in the Cost of Production page calculate the total cost of producing each crop (adding up the Crop's Share in each section) and the cost per unit (pound, bushel, head, etc.) for each crop raised. ***This value only reflects operational production costs, and does not yet include general management/administration or market channel expenses*.**

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Sales Output

The Sales Output sheet calculates the Crop Cost of Production, Crop Gross Margin, Unit Break Even Price, Unit Net Profit and Crop Net Profit for each crop within each market channel. Sales, Number of Units Sold, Unit Average Price and Unit Cost of Production for each crop in each market channel are automatically brought over to this sheet to assist the user in reviewing and analyzing important information generated on this Sales Output sheet.

Because each market channel has unique expenses associated with it, the unit cost of producing crops for one market channel to the next can be different.

The Crop Cost of Production, Crop Gross Margin, Unit Break Even Price, Unit Net Profit and Crop Net Profit for one market channel to the next can be different, based on the Sales, Number of Units Sold, Unit Average Price and Unit Cost of Production for each crop in each market channel.

In the far right columns, the Sales, Number of Units Sold, Crop Cost of Production, Crop Gross Margin, Unit Net Profit and Crop Net Profit for the total amount of each crop sold through all market channels is calculated.

The Crop Cost of Production is calculated based on the units sold of each crop within each market channel. This value expresses how much *production* labor and supplies were invested to grow the crop. *The cost of general management/administration and market channel expenses are not yet included.*

The Gross Margin is the percent margin above the production costs that each crop generates in each market channel. If this value is negative then no profit is being generated by this crop in that market channel.

The Break-Even Price for each crop is the price that a producer must receive to cover the *total* costs for each crop. The Break-Even Price includes all production expenses, *and the general administration, and market channel expenses* when calculating the minimum price. The producer must receive a price higher than the Break-Even Price in order to make a profit.

The Unit Net Profit shows the profit per unit of each crop (lb, head, bushel).

The Crop Net Profit shows the profit on the total units of the crop sold.

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Profit & Loss by Market Channel

The Profit & Loss output page is a summary of the whole farm business and its profitability. This P&L sheet shows the Net Profit for each market channel and for the total farm.

Sales in each Market Channel are automatically brought over to this P&L sheet. The percent of Total Sales for each Market Channel is calculated to show the contribution each market channel makes to the Total.

The Crop Costs of Production for each Market Channel, as totaled on the Sales Output sheet, are automatically brought over to this P&L sheet.

The percent of Sales that are Production Expenses is calculated for each Market Channel to reveal what proportion of the sales is needed to cover the production expenses.

The Gross Profit, which accounts for all production expenses, is calculated for each market channel. This is simply Sales minus Production Expenses.

The Gross Profit as percent of sales in each Market Channel is calculated. This informs the producer of the percent of the sales that is left after production costs have been deducted. Gross profit **does not** account for Specific Market Channel Expenses and General Management and Administrative Expenses.

The unique expenses of doing business in each Market Channel, which were entered on Step One Expenses Input sheet, are automatically brought over to this sheet.

The General Management & Administration expenses, which were entered on Step One Expenses Input sheet, are now allocated to each market channel by sales volume.

The unique Market Channel Expenses and the General Management & Administration are added together to provide the total of non-production expenses for each market channel. The percent of sales is provided to reveal what proportion of the sales is needed to cover the cost of Market Channel and General Management and Administration expenses.

Net Profit for each Market Channel is now calculated. The total of unique Market Channel Expenses and General Management & Administration are deducted from Gross Profit to reveal Net Profit. Net Profit is the dollar value of the profit or loss of each Market Channel.

The percentage of Sales that is Net Profit reveals the profitability of each Market Channel.

Non-Operating Income, as entered on Step 2 Sales Input sheet, is automatically brought over to this P&L sheet.

The percentage of Sales that is Net Profit reveals the profitability of each Market Channel.