HOW DO YOUR PRODUCTION COSTS MEASURE UP?

Michigan sod producers discovered recently that they were dangerously close to not making any real profit. While they were getting paid for their labor, they found they would have been financially ahead had they sold their farms and placed the money in a bank to draw interest.

Considering that Michigan is the leading sod-producing state in the nation, the news is a bit startling. Donald D. Juchartz, director of the Michigan State University Cooperative Extension Service in Wayne County (Detroit), gave the full story at the recent annual meeting of the American Sod Producers Association.

Leading growers who had watched the field price of sod shrink from $1.00 per yard (Merion in 1948) to less than 30 cents in 1969 decided something had to be done to reverse the trend, he said.

Having a more sophisticated accounting system than most producers, they were getting red flags from their accountants who were saying “your profit margins are too small and are shrinking each year.”

They were particularly alarmed and puzzled because the drop in price came in the face of rapidly increasing costs and during a constant period in which the demand for sod exceeded supply.

They noted, Juchartz reported, the repeated occurrence of new growers needlessly cutting prices to get into the market. They were aware also that producers generally had succumbed to “winter jitters” and had reduced prices at the beginning of a new season.

Why had growers collectively allowed such a trend? Juchartz suggested that lack of communication was a big reason. “Over the years, the sod business had been highly profitable, and growers were saying ‘We’re going to run our own business,’” he said. There was very little comparing by one grower with another.”

As competition stiffened and costs went up while prices went down, they attempted to keep income at the same level by increasing sod acreage and sod sales.

What was missing, Juchartz continued, was the awareness that they needed to think like businessmen. “They were enjoying a good life, but they had forgotten that the name of the game is profit,” he said.

The handful of sod producers who recognized the gravity of the situation determined that growers generally were operating in the dark concerning sod production costs. What was needed was a financial management education program to help the grower think like a businessman.

The leading sod growers worked with Juchartz to arrange the seminar. They were Bob Daymon, Emerald Valley Turf Nurseries, Gregory; Bob Hozak, Tech Center Sod Farm, Fowlerville; and Ted Bosgraaf, Blue Grass Sod Farm, Hudsonville.


Together, the growers, agricultural economists and Juchartz developed then conducted a three-day intensive short course in February of 1969.

Here is how Juchartz described the meeting in a report to Michigan sod producers.

“There was considerable skepticism and little enthusiasm by growers during the first session. As the sessions went on and the facts were brought out, with most being supplied by the skeptics, a reverse in thinking was noticeable.

An almost unbelievable change took place in the attitudes of the growers as one fact shed light on another. They realized that this was being done, not for the benefit of one or two, but for the benefits it would bring to the overall industry.

“It was decided through the course of the meetings to develop a hypothetical, 200-acre ‘Case Sod Farm.’ While the Case Sod Farm was to be hypothetical, it would be based on facts supplied by the growers attending the meetings.

‘This was done, with each item and every factor analyzed, discussed and dissected until there were no objections from any person there that the fact or figure arrived at was correct. As these facts and figures were accumulated, they were organized into the form of a financial and profit and loss statement for the Case Sod Farm.

‘The results were startling to the group, even though they had supplied the facts.

‘The Case Sod Farm Report showed that the cost of growing sod on the average farm in Michigan in 1969 was 29 cents per yard.”

Among developments after the seminar, Juchartz continued, were the organization of a state association and the circulation of a market report on a weekly basis. Members reported such statistics as acreage planted and yardage marketed, price charged, etc. The figures were compiled and a report returned to participating growers.

The significance of the service, Juchartz reported, is that for the first time in history, sod prices held through the spring and summer of 1970. Growers estimated that the program brought them an additional half-million dollars in income.

The Case Sod Farm Report is reproduced in this issue as a guide for producers elsewhere to determine what their production costs might be. For, Juchartz concluded, “What has happened to Michigan may happen in other parts of the country.”
CASE SOD FARM FINANCIAL STATEMENT

CURRENT ASSETS
Cash $ 5,000
Accounts Receivable 2,000
Supplies 2,000
Growing Sod (175 A's @ $400/A) 70,000
Total $79,000

INTERMEDIATE ASSETS
Machinery & Equipment 105,100
Accumulated Depreciation (37,100)
Total $ 68,000

LONG TERM ASSETS
Buildings & Improvements 45,000
Accumulated Depreciation 9,000
Land 130,000
Total $166,000

Total Assets $313,000

CURRENT LIABILITIES
Total $20,000

INTERMEDIATE LIABILITIES
Total $30,000

LONG TERM LIABILITIES
Total $ 83,000
Total Liabilities $133,000
Owner Equity $180,000

Total Assets $313,000

Total Acres 350
Tillable Acres 200
 Harvested Acres 100

FINANCIAL STATEMENT
1. Total current assets $ 79,000
2. Total intermediate assets $ 68,000
3. Total long term assets 166,000
4. Total Assets 313,000
5. Total current liabilities 20,000
6. Total intermediate liabilities 30,000
7. Total long term liabilities 83,000
8. Total Liabilities 133,000
9. Owner Equity 180,000

INCOME STATEMENT
10. Value of farm production 120,000
11. Gross profit from operation 15,000
12. Profit (Loss) 4,000

FINANCIAL STATEMENT RATIOS
13. Current ratio (line 1 / line 5) 3.95
14. Intermediate ratio (line 2 / line 6) 2.26
15. Long term ratio (line 3 / line 7) 2.00
16. % current debt (line 5 / line 8) 15%
17. % intermediate debt (line 6 / line 8) 23
18. % long term debt (line 7 / line 8) 62
19. Debt to total assets (line 8 / line 4) 42
20. % depreciation of machinery 35
21. % depreciation of improvements 20

INCOME STATEMENT RATIOS
22. Return on owner equity (line 12 / line 9) 2.2%
23. Return on assets 4.8%
24. Gross operating margin (line 11 / line 10) 15.8%
25. Net operating margin (line 12 / line 10) 3.3%

MANAGEMENT FACTORS
26. Crop factors Costs Per Yard Sod Sold
27. Management Labor .0375
28. Cash Labor .0820
29. Power & Machinery .0606
30. Buildings & Improvements .0152
31. Crop .0432
32. Overhead .0514
33. Total .2900

35. Harvest Acres as Percent of Tillable 50