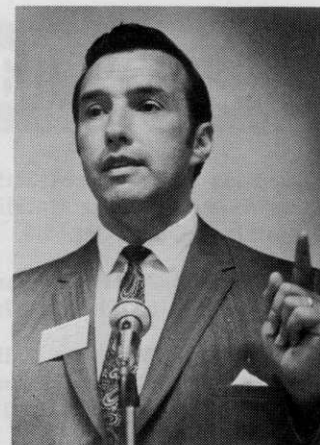


HOW DO YOUR PRODUCTION COSTS MEASURE UP?



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 say-

ing '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.

Juchartz called in three Michigan State agricultural economists, Drs. Ralph Hepp, Myron Kelsey and Warren Vincent.

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
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CURRENT LIABILITIES

Total	\$20,000
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INTERMEDIATE LIABILITIES

Total	\$30,000
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LONG TERM LIABILITIES

Total	\$ 83,000
Total Liabilities	\$133,000
Owner Equity	\$180,000
	\$313,000

Total Acres	350
Tillable Acres	200
Harvested Acres	100

OPERATING RECEIPTS

	Total Farm	Per Yard
Sod Sales (400,000 yds.)	\$120,000	.3000

OPERATING EXPENSES

Labor	\$47,800	.1195
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1—Owner-Operator	\$15,000
1—Full Time Man	10,000
6—Apr. 15 to Nov. 15 (110/wk)	19,800
1—Part Time Office	3,000
Above Includes Workmen's Compensation, S.S. Etc.	

Power & Machinery	24,250	.0606
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Depreciation	13,100
Repairs	6,000
Gas & Oil	3,000
Machine Hire	2,000
License	150

Buildings	6,100	.0152
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Depreciation	4,500
Insurance incl. Liability	1,600

Crop	17,300	.0432
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Seed	5,000
Fertilizer	10,000
Chemical Spray Material	2,300

Overhead	20,550	.0514
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Utilities	3,000
Office	1,000
Legal & Accounting	1,000
Property Taxes	2,100
Travel & Entertainment	500
Interest	11,000
Supplies	1,000
Miscellaneous	950

Bad Debts

Total Operating Expenses	\$116,000	.29
Profit before Taxes	\$ 4,000	.01

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	19,000
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 and Improvements	.0152
31. Crop	.0432
32. Overhead	.0514
33. Total	.2900

35. Harvest Acres as Percent of Tillable	50
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