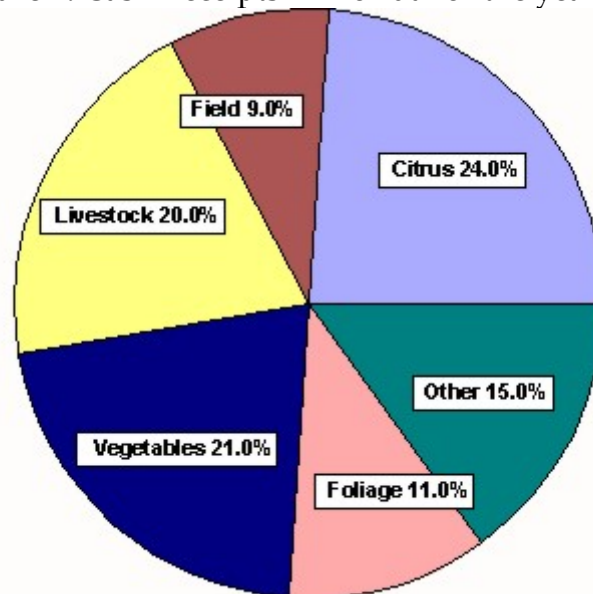


Pricing & Production Management

Tim Hewitt, Professor
Food & Resource Economics

In Florida there are fifty-five commodities with cash receipts of over \$1 million. Nine citrus commodities are included in this number. Only California has more citrus than Florida.

Figure 1. Cash Receipts in Florida for the year 2001



The Florida Leading Commodities

Florida's leading commodities include oranges, poultry and eggs, foliage, cattle, tomatoes, green peppers, sugarcane, grapefruit, milk and strawberries. Overall, Florida ranked number seven in agriculture in 2001. During the same year, the state ranked number one for citrus, number two for both tomatoes and nurseries, number six for both crops and peanuts, number nine for tobacco and number twelve for livestock.

What is Marketing?

Marketing is the production and soliciting of a quality product. In order to ensure good marketing, you need a profitable time and profitable location. Marketing is an attempt to have control over price. In order to have successful marketing, you need to know what to produce, you need to know how to sell what is produced and you need to

know when to sell the product. Market determinants include goals, volume, production window and location, location, location. Marketing factors include pricing foals, equipment and facilities, market availability, brokers and location.

Markets

There are several different types of markets. For example, there are wholesale markets, cash, auctions, contracts, futures, roadside and brokers. In each of these markets there are many demands that must be met. Demands include quality of product, product consistency, availability, and dependability.

Pricing

All of the market players have some influence on the price of the product. These players include the growers, both large and small scale, the packers, the shippers, the brokers and the sales agents. The pricing of a product will often change as a source of supply, demand, preferences and availability. Other price factors include location, timing, local tastes, quality, season, promotion and uniqueness.

Market Information

Market information is important. The location, pricing system and availability are all important factors. For specialty crops, there is less information available. You can obtain information from news media, other producers, farm organizations and trade associations, extension, brokers, crop reporting services and buying points. Commodity markets, magazines and the USDA are also sources of information.

Costs and Budgeting

In order to estimate costs, you need to budget your operations. Cost guides are available from the Cooperative Extension Service. Most counties have web sites for this. Budgeting includes an estimate of expense for an enterprise. It allows for some decision making to take place. Producers should develop their own budgets. Extension services provide budgets as guides for producers to use. Most budgets include estimated revenue, estimated variable costs, estimated fixed costs and break even analysis. For example, in a watermelon budget, variable costs would include the following;

Item	Percent
Plants	8%
Fertility	14%
Chemicals	13%
Equipment	7%
Mulch	10%
Labor	40%
Other	8%

Breakeven analysis for the same watermelon budget would be 17,500 pounds, 8.0 cents or 20,000 pounds, 7.5 cents, or 25,000 pounds, 6.0 cents.

To develop the asking price you would have to determine your variable costs, fixed costs, total cost, management fee, profit. All of these would total to your asking price. The following is an example;

Yield: 25, 000 lbs		
Variable costs	\$1500	\$0.06
+ Fixed costs	\$175	\$0.007
+ Management fee (20%)	\$167	\$0.007
= Asking Price		\$0.074

A decision tree analysis is a way to rate risk outcomes. It looks at different yields and prices. It gives a likely outcome and shows a chance of profit. A decision tree analysis will show you three probabilities, optimistic, low and expected. The decision tree and asking price forces the growers to look at costs, yields and markets.

Table 1 - Decision Tree for Tomatoes Costs; 12,000

Price	Probability	Yield	Probability	Income	Net	Joint Probability
5.50	10	1,000	30	\$5,500	\$-6,500	3
9.00	70	1,000	30	\$9,000	\$-3,000	21
15.00	20	1,000	30	\$15,000	\$3,000	6
5.50	10	1,200	40	\$6,600	\$-5,400	4
9.00	70	1,200	40	\$10,800	\$-1,200	28
15.00	20	1,200	40	\$18,000	\$6,000	8
5.50	10	1,500	30	\$8,250	\$-3,750	3
9.00	70	1,500	30	\$13,500	\$1,500	21
15.00	20	1,500	30	\$22,500	\$10,500	6

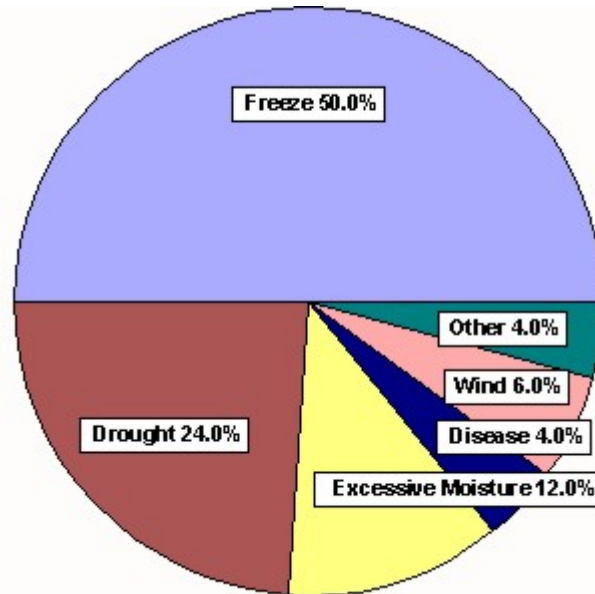
Factors that affect net farm income include prices, yields, costs of production, technology adoption and equipment and land availability. Management and efficiencies lead to profit. Try to reduce costs without sacrificing yield. Know what costs and benefits are for certain production practices and carefully evaluate change.

When marketing livestock, there are other factors that determine value. For example, sex, frame, weight, condition, muscling, color, horns, vaccinations and breed all are factors that determine the value of the animal. There are also certain production practices that increase the market value of the animal. Examples of these practices include breed choice, dehorning, castration, de-worming, vaccinations and feeding programs.

Sources of Risk

Sources of marketing risks include unstable prices, insect and disease damage, adverse weather, the cost of inputs and foreign competition.

Figure 2 - Why Crops Fail in Florida



Production Planning

Part of production planning involves having a production plan as well as a marketing plan. You should know production costs and be aware of break-even prices. Develop an asking price and stay on top of plans and crop progress. Follow outlook and evaluate what happened, you should learn from mistakes. You should always keep field (pocket) records. Records should include fertility rates, grazing days, breeding dates, birthdays, birthing weights, open cows, amount of hay, supplemental hay, health problems and pest problems.

The Institute of Food and Agricultural Sciences (IFAS) is an Equal Employment Opportunity - Affirmative Action Employer authorized to provide research, educational information and other services only to individuals and institutions that function without regard to race, creed, color, religion, age, disability, sex, sexual orientation, marital status, national origin, political opinions or affiliations. For information on obtaining other extension publications, contact your county Cooperative Extension Service office.

Florida Cooperative Extension Service / Institute of Food and Agricultural Sciences / University of Florida / Larry R. Arrington, Dean