Fruit and Vegetable Production

Lesson 1: Managing Financial Resources

Growing fruits and vegetables can be a very rewarding experience. However, risks are involved. In fruit and vegetable production, as with any new business, it is important to have a plan before investing time, money, and energy.

The Importance of Financial Planning

Financial planning is the process of defining goals and developing and implementing a plan to finance the goals. A financial plan that is correctly put together reveals how much money is received and allows the planner to closely monitor spending. The information compiled can be used to manage money and help achieve goals.

Financial planning is very important in fruit and vegetable production because the products are highly perishable. This means that the time period in which marketing and selling can occur is limited. Because of this time limitation, careful planning must take place to ensure that money is available throughout the year when earnings have decreased or are not coming in. Planning not only enables individuals to manage finances throughout the year, it also promotes critical thinking about what crops to plant. Careful planning of seasonal and year-round crops, varying planting times, and planting a variety of crops are all ways to extend the time period in which income is received.

The Importance of Goals and Objectives

A goal is a statement of what an individual wants to accomplish both personally and financially. Goals give an individual direction for using financial resources. Together, goals and a financial plan can be used to allocate funds where they are needed. Achieving goals gives an individual a feeling of satisfaction and the self-esteem to continue setting goals and striving to attain them.

Goal setting and financial planning are especially important when entering fruit and vegetable production. As mentioned before, fruits and vegetables are highly perishable. Careful planning needs to occur during planting, growing, and marketing to ensure a saleable product and an income for the year.

Labor is another reason that goal setting and financial planning need to occur. Labor is a major expense and can be difficult to find in certain areas. Different fruit and vegetable operations require different means of labor. In a you-pick operation, for example, there is less labor involved than in an operation where the owner/operator harvests the product. Therefore, determining labor needs and costs is an important part of setting the goals for fruit and vegetable operations.

Preparing the Financial Plan

Once the overall goals and objectives are determined, the financial plan can be prepared. There are three main steps in financial planning.

- Record a projection of income and expenses.
- Make a list of wants and needs.
- Implement the financial plan.

Recording Projected Income and Expenses

The first step in preparing the financial plan is to record a projection of how much money will be received (income) and how much money will be spent (expenses). The income (receipts) may be received weekly, every two weeks, monthly, or even once or twice a year. A record book should be used to keep track of income and expenses. Use the receipts pages in the record book to show the income that is received, where it came from, and the date it was received.

With any financial plan, it is essential to know the difference between gross income and net income. Gross income is the total amount of money the business takes in before any deductions are made. Net income is the amount of money the business has after expenses have been met and deductions, such as taxes and Social Security, have been taken out. If more money is spent than the business makes, the business experiences a net loss. If there is money left after expenses and deductions, the business makes a net gain or profit. All businesses want to make more money than they pay out, so it is very important to document all expenses. An expense is money that is spent to obtain a goal or purpose. Use the expenditures pages in the record book to keep track of how much money is spent and where it is going.

Businesses incur two types of expenses: fixed and variable. Fixed (ownership) costs are paid regularly, regardless of the amount of sales the business makes. The major areas of fixed costs are rent, insurance, depreciation, taxes, interest, and repair. Some examples of fixed costs in fruit and vegetable production are rent, land insurance, repair of structures, and interest on principal.

Variable (operating) costs change according to the production level and amount of use. The major categories include labor (salaries), fertilizer, chemicals, seeds/plants, gasoline and oil, inventory, supplies, advertising, utilities, telephone bills, and principal payment. Some examples in fruit and vegetable production are labor (both seasonal and full-time), fertilizer, growing media and chemicals, water, electricity, and advertising.

Making a List of Wants and Needs

The second step in preparing the financial plan is to make a list of wants and needs. Needs are items and expenses that are necessary for the survival of the business. Wants are items and expenses that are desired but not essential. The purpose of this step is to bring the overall business objectives together with the financial information to set specific short-, intermediate-, and long-term goals. The business owner must make sure that business needs are taken care of first and that other items come later, as finances allow. This will help ensure that funds are available to pay expenses throughout the year. This is especially important for a fruit and vegetable operation, since in most cases income only occurs from May through October.

Implementing the Financial Plan

The third step is to implement the financial plan. It is important to remember to continue keeping current and accurate records of all income and expenses once the plan is under way. This information will be used to monitor progress toward reaching the business goals.

Remember that sometimes even the best plans run into problems. Mistakes can get made, and factors such as weather, insects, and disease can cause unexpected expense. When this happens, make adjustments to the plan. Many times, making adjustments does not mean giving up on goals but simply changing the time frame in which they are achieved. Make sure that needs are met first and make adjustments to goals that are not essential. Being able to adapt to changing conditions is an important skill for any business owner and can help build confidence and understanding of the business.

Summary

Financial planning is an integral part of a business and should be done to help establish goals and reach objectives. Receipts and expenditures should be recorded to keep accurate records of how much money is received and how much money is being spent. Always be sure to factor fixed and variable costs into the financial plan. As the financial plan is put into action, monitor business activity and adjust the plan as necessary to attain the established goals and objectives.

Credits

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Greenhouse Operation and Management. University of Missouri-Columbia: Instructional Materials Laboratory, 2002.