

## Tool Narrative

### Intent

- Provide an economic tool to better understand the costs of production and determine the general economic health of the industry.
- Develop an understanding of the relationship of production costs to the impact on supply, demand and crop pricing.
- Reduce pricing uncertainty by mitigating over and under supply.
- Encourage growers to migrate from using “average farm costs” to focus on and think about their own production standards, inputs used, and custom rates paid.
- Develop a system which includes a complete understanding all the steps involved in a farm’s costs of production (methods, practices, processes and resources) as a tool to decide on crop selection. The tool provides a process for each farm/grower to:
  - Itemize and document all the steps involved in their production process
  - Identify all the inputs and associated quantities required in their production process
  - Assign valid costs associated with each step, input and custom hire rates
- Develop a tool that individual growers can utilize to make informed decisions based on their resources available including land, capital, labor, time and skills. Resources available for Individual farms are not all equal or identical. Each farm tends to make micro-economic decisions for determining which crops to grow in a production cycle. Having a tool to document historical costs and to project accurate pro forma costs will help each grower make informed decisions and accept associated consequential risks.
- Create a demand for quality grass seed produced in Oregon by understanding how it is grown and encourage each grower to develop a plan and model for continuous improvement in establishing production standards and best practices.
- Encourage professionalism amongst growers as a standard to production and pricing.
- Document changes in costs of production, range and mean, in response to economic and other factors.

### Method

- Documented the cost of production for selected crops utilizing costs fees and rates arising from a commercial custom farm operation.
- It is assumed commercial custom operators includes variable cost, fixed costs, overhead costs, repair costs, replacement costs, management fees and a margin for profit (return on investment).

### Results vs Objective

- Family sized farms are evolving to larger sizes to better spread overhead costs and develop an efficient economy of size.
- The implication is there will be less individual grass seed growers.
- The remaining grower(s) can have more leverage since they will tend to be negotiating larger production contracts and armed with better understanding of costs of production growers can negotiate from a position of shared power.
- Individual farm’s production practices are often subsidized by market price increases in farm equity – primarily land. Subsequently, many producers may be understating their true cost of production. Consequently, in any given year, as long as land values continue to increase, growers can borrow an increasing amount of long- and short-term capital.
- The continued borrowing will eventually deteriorate equity and opportunity cost.
- This will be evident when the farmer sells or transitions the farm to the next generation and not enough cash or cash flow is available to secure a cost-effective transfer.

- Maintain and enhance the consumer's image of Oregon being a supplier of high-quality grass seed through best practices, environmental and economic sustainability.
  - Major retailers and big box stores buyers (Lowe's, Home Depot, etc.) tend to appreciate a consistent supply and to minimize price shocks due to shortages.
  - Year-over-year modest price increases and/or decreases are an easier sell to volume buyers.
  - An authorized grower's group might open a communication channel with major retailers and volume buyers to help convey why a stability in price and supply is desirable.

#### **Planned improvements to the method**

- Create a process and structure a continuous improvement process for the tool.
- Annual review and feedback from growers, dealers and other professionals. Having growers and dealers participate in tool review and feedback will assist in generating a useable economic tool.
- Continue to use and update "Custom Farm" costs for evaluation but also to start collecting data from "Owner Farmer" operations and include this data in the study also.
- Document a line item analysis of Page 1 of the budget tool. Each line item to be reviewed, identified and briefly discussed so that there is a uniform interpretation of each line item.
- Document all production processes and procedures.

#### **Formal process for submitting comments**

- Create a formal and structured process for submitting comments and inquiries to the authors. Inquiries of format and content may be directed to Sunderland Solutions ([comments@sunderlandsolutions.com](mailto:comments@sunderlandsolutions.com)).
- Comments and suggestions could be published which would add transparency and credibility.

#### **Additional Comments, glossary, definitions, explanations and remarks.**

#### **Costs are divided into two categories**

##### **1. Variable Costs**

- a. Variable costs vary according to the level of production and depend directly on the number of acres farmed. Variable costs typically increase as acres and production increase.
- b. Variable cost examples include: fuel, repairs, fertilizer, chemicals, seed, labor (both operator and hired), utilities and interest on operating capital.

##### **2. Fixed Cost**

- a. Fixed Costs do not vary with level of production and will occur even if no production takes place.
- b. Fixed cost examples include: depreciation, land charges, property taxes, interest and principal payments on non-current debt, insurance and management fees.
  - i. Management fee is an opportunity cost for management. This is representative of management fees charged by farm management firms and is an estimation of the value of an operator's management skills. The fee is calculated at 7% of expected gross receipts.
  - ii. Land cost is equal to the cash rent typical of the area.

#### **Prices shown in study**

This is a budget tool not as a pricing tool. The Cost Study is from the perspective of a commercial custom farm operation. The Crop Budget Study was completed using a combination of surveys from custom hire businesses, seed cleaners, farm suppliers, crop advisors and growers. Some, but not all, inputs are costing more than last year. Labor

availability, Oregon wage rates, oil prices, supply chain issues, policy, international relations/conflicts, and weather are at the forefront of reasons impacting inputs and outputs.

Users need to consider their own line- item inputs and pricing opportunities combined with their purchasing power. Historic yields and your production practices should be used in preparation of this budget. Producers, Seed Dealers and Crop Advisors are encouraged to recommend edits that can be used to refine this budget study.