Managerial Economics for Blueberries

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Blueberry enterprise budgets
Adapt your own
http://www.uky.edu/Ag/NewCrops/budgets.html

• Know your cost of production before you pursue a market
  – Does wholesaling make sense?
  – Retail prices may be better but involve unique costs
  – Knowing your full cost helps you recognize a good price in the market

• Managing cash flow
for a perennial crop

<table>
<thead>
<tr>
<th>Year</th>
<th>Return to Land, Capital &amp; Management ($/acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil build-up/land prep</td>
<td>$(736)</td>
</tr>
<tr>
<td>Planting year</td>
<td>$(4,170)</td>
</tr>
<tr>
<td>Second growing year</td>
<td>$(1,872)</td>
</tr>
<tr>
<td>First production year</td>
<td>$(1,605)</td>
</tr>
<tr>
<td>Second production year</td>
<td>$1,252</td>
</tr>
<tr>
<td>Third production year</td>
<td>$5,084</td>
</tr>
<tr>
<td>Full production year</td>
<td>$8,272</td>
</tr>
</tbody>
</table>

• Managing cash flow
  – Manage costs and payments for land, buildings, equipment
  – Other sources of revenue from farm, off-farm
  – Complementary enterprises – linking to your market focus

Plenty to manage for small and large producers alike

• If you can’t measure it you can’t manage it
• Some of my favorite financial ratios:
  – Sales/assets (should be increasing)
  – Sales/labor (should be increasing)
• Always need to monitor liquidity, solvency (debt), efficiency, and profitability
Managerial Economics

- **Scale economies** – spreading fixed costs out over more and more production
- Cost advantages to large volume producers
- Specialized equipment
  - Mechanical harvesters
  - IQF on-farm
- Storage, distribution
- Bulk buying
- Advertising

**Is there a shipping cost advantage for local farmers?**

- **Watsonville, CA to Cincinnati, OH**
  - 2,455 miles @ $6,000 total for 40,000 pints (lbs)
  - Refrigerated trailer
  - Back haul provided
- **Springfield, KY to Cincy**
  - 157 miles, no back haul (so x2)
  - Refrigerated truck (VERY cheap at $0.85/mile)
  - 6 hours driving labor @ $15/hour
  - 2,160 pints (lbs)

Average cost = Total cost / Total Production

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- **Example of Coffee Brands**
  - Kroger Brand
  - Nescafe instant
  - Maxwell House, Folgers
  - Millstone
  - Dunkin Donuts
  - Starbucks
  - Kona
  - Many other products with variable prices and quality – wine, beer, cheese, meat, dining menus, blueberries?

**The Value Map**

- Price
- Lower consumer value
- Higher consumer value
- Product D
- Product B
- Product A
- Product C
- Indifference curve
- Benefit/experience leadership
- Quality

**Strategic Market Analysis**

- **Benefits leadership**
  - Build business around distinctiveness of products
  - Fits in the direct marketing world
- **Cost leadership**
  - Get big – pursue scale economies and extended products
  - Fits in the commodity/commercial world

...what does your market call for? What are the opportunities?
### What's so special about my product?

Customer purchase decision...

**Customer Purchase = Features & Benefits (Value) / Price**

### Customer Purchase Decision

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<tr>
<th>Feature</th>
<th>Value</th>
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<tr>
<td>Color/bloom</td>
<td>Unique varieties</td>
</tr>
<tr>
<td>Quality</td>
<td>Taste</td>
</tr>
<tr>
<td>Local</td>
<td>Location/demand</td>
</tr>
<tr>
<td>Package</td>
<td>Merchandising</td>
</tr>
<tr>
<td>Knowledgeable Service</td>
<td>Referral</td>
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**Customer Purchase = Price**

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