

Cherry costs and returns for NSW

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Cherries are a short-season, often high value fruit crop in NSW.

The [case studies](#) provided show average figures and inputs from real NSW farms that produce cherries. Examples are given for two areas with very different climatic conditions. These are the high-rainfall tablelands districts such as Orange and Batlow, and the lower-rainfall areas of the South-West Slopes such as Young, Forbes and Hillston. Yields shown are regarded as average for the different production systems and climatic zones.

Gross margin budgeting

Although the [budgets](#) are a guide to the relative profitability of the different districts and an indication of the management practices in place, they should be used with care. The budgets are influenced not only by general factors such as prices and costs but also by the individual characteristics of each orchard, and the level of management and skill.

The information is intended as examples only, to provide an indication of potential costs and returns from the crop. The inputs listed are an example of what some growers have used. Inputs and crop protection strategies will be different for every grower.

If you are intending to develop a cherry block, you should seek professional economic advice and develop a business plan suited to your circumstances before proceeding with the new venture.

What is a gross margin budget?

A gross margin is the gross income from an enterprise less the variable costs incurred in achieving it. Variable costs are those that directly relate to an enterprise, and which vary in proportion to the size of an enterprise and the management techniques used.

The gross margin is **not** the same as gross profit, because it does not take into account overhead or fixed costs such as depreciation, interest payments, rates, power, water, insurance or mortgage costs. These costs need to be taken into account when completing whole farm budgets.

How can the gross margins be used?

Gross margins are a convenient way of comparing one farm enterprise with another. They can only be compared when using the **same** fixed resources such as machinery, land, labour, buildings and equipment. When major changes are being considered, more comprehensive budgeting techniques are required to indicate the real profitability that takes overhead costs into account.

If you are contemplating an enterprise change, you will need to carefully consider the following factors, as they are not taken account of in gross margin budgeting:

1) *Resource requirements*

Is there sufficient land, water, labour and capital to implement the desired change? If you are considering a change in crop type, do you have the expertise to grow it? Is it suited to your climate and soil type? Does the crop fit in with



the orchard's labour availability? Does specialist machinery need to be purchased?

2) *Technical efficiency of current enterprises*

Before you undertake any change, have a look at the performance of the current enterprises run on the orchard. Can you improve returns through the adoption of new or improved techniques or better management?

3) *Risk*

Different enterprises will have different levels of risk associated with production and prices, which need to be taken into account. With cherry production, the risk of the crop splitting close to harvest after summer rainfall is a serious financial risk that must be carefully considered.

4) *Cash*

A gross margin analysis does not show the time period involved in reaching profitable production. A cash flow budget which examines costs on a time scale is more appropriate.

Assumptions

The following assumptions have been made in preparing the example [gross margin budgets](#):

- The orchard unit is one hectare (although most blocks are likely to be larger).
- The orchard is irrigated and the licence held meets expected water requirements.
- Drip irrigation is used.
- Labour is paid at the appropriate award rate.* Superannuation is 9%, workers' compensation premium is 6.9%, and no payroll tax is required.** A total labour cost of \$18 per hour is used in the examples.
- Machinery running costs include fuel and oil only. Maintenance costs are treated as a fixed cost, along with labour for repairs.
- Income received is minus any service charges and other costs incurred through selling fruit through a market wholesaler.

*The appropriate award rate needs to be used in calculating the hourly rate for your staff. The hourly rate you use is based on the level at which the farm employee is employed.

** Under NSW legislation, you are liable for payroll tax if you are an individual employer, or one of a group of employers whose total wages throughout Australia, including NSW, exceeds \$600,000 for the payroll tax year.

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Disclaimer: The information contained in this publication is based on knowledge and understanding at the time of writing (September 2005). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of New South Wales Department of Primary Industries or the user's independent adviser.