

Workshop Title: Economics of Wholesale Vegetable Production

Speaker(s) & their titles: Matt Dykerman, Red Soil Organics (PEI)

Executive Summary

Matt Dykerman's farm, Red Soil Organics, is a 60-acre mixed vegetable operation in PEI specializing in wholesale. They also produce 100 acres of grain and cover crops. Red Soil Organics serves retailers across Atlantic Canada and Eastern Canada. In this presentation, Matt talked about how to sell successfully to retail and distributors, and discussed the successes and challenges of using a wholesale distribution system.

Detailed Notes

Matt grew up doing conventional production, and has recently transitioned part of the farm to organic.

Differences between conventional and organic wholesale distribution:

- ⤴ Void in the marketplace for organics; there's not much marketing info available for organic producers
- ⤴ Organic producers sometimes have to learn pricing the hard way

“Price of Admission” into wholesale distribution-Costs for things that retailers expect

- ⤴ Food safety credentials (Red Soil is GAP certified)---expectation for certification and type of certification will vary by retailer
- ⤴ Liability insurance
- ⤴ Organic certification

Production costs at Red Soil Organics:

- ⤴ \$65/hr for tractor work
- ⤴ \$15/hr for labor

You have to decide on prices that make economic sense for your farm and your production costs.

Example: Cost per acre for producing Cauliflower (*see slide for the full table*)

This table breaks down the cost per acre to produce a cauliflower crop at Red Soil Organics, considering labor costs, fertilizer costs, fuel costs, etc. In this example the cost of transplanting accounts for two people transplanting on a tractor. The fertilizer in this case is pelleted chicken fertilizer.

Yield sensitivity analysis: how much it will cost to produce under different scenarios (depending on yield)

- ⤴ Breaks down to cost of production per carton. The increase in yield will result in a lower cost per carton to ship out.

Yields are within **90%** of conventional production, which he considers very good.

Pricing and Margins:

Setting prices can be a big challenge, as there isn't much market information available for wholesale organics.

Rules of Thumb:

1. Know competition

- ⤴ What are they selling it for, where are they from, what are their costs of production
- ⤴ Retailers are not going to go out of their way to buy from you if someone else is selling for a lower price

2. Work backwards from retail

- ⤴ i.e. Organic cauliflower is \$3.99 at retail

Retailer's desired margin=35 to 50 points

Wholesale price=\$2 to \$2.60

3. Know your competition

- ⤴ California, Quebec, regional competitors
- ⤴ 'Local' is a selling point---if you can match the prices from another province, retailers would take your products for the local branding (but probably won't pay more)

Links in the Supply Chain

- ⤴ Retailers
- ⤴ Wholesalers---hold warehouses to store products
- ⤴ Brokers---middlemen who do not hold warehouses, just make the phone calls from farmer to retailers
- ⤴ Processors

The best thing for the farmer is to sell directly to the retailer if possible, although sometimes there are advantages to going through wholesale or brokers. They use all four links at Red Soil Organics.

Purchasing and Capital Investments

- ⤴ Think in systems---invest in machinery that complements what you have and based on what makes sense for you and the scale you're at
- ⤴ Determine payback period----how long will it take to receive a return on your investment?
- ⤴ How to finance capital investments?

-Farm Credit Canada, which is an arm's length branch of the Canadian government. They will finance producers at competitive rates. Do have young farmer programs, i.e. reduced interest rates.

-Banks

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Farm Credit Canada is generally more open to dealing with farmers than standard banks, and are more familiar with the risks that are associated with farming.