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How Much Did Your Costs Increase?

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Visit with any potato producer for even a short time and the conversation will likely gravitate to the cost of producing the crop. To remain profitable, producers must sell at a price above costs. Unfortunately, over the past year producers have seen double-digit cost increases, and costs are continuing to rise. So how much did costs go up this past year?

The full report of cost calculations, how to interpret the results, and specifics concerning cost of potato production in Idaho comparing 2007 with 2008 published by University of Idaho (UI) can be found on the Internet at www.ag.uidaho.edu/aers/publications/PCOP2008FinalReport.pdf.

The increase in costs depends on many factors including where your farm is located, variety of potato grown, etc. Regardless, the change in potato operating costs from 2007 to 2008 is the largest ever seen in paired comparisons going back to 1991. Substantial cost increases occurred in all major operating cost categories. Table 1 shows both the dollar increase and the percentage change between 2007 and 2008. Detailed budgets for different production

systems (non-storage and no fumigation) are found in the report referenced above.

The largest increases both in dollars and percentages were seen in fertilizer, where per acre costs increased by \$230 to

all, operating costs per acre were up approximately 25 percent over 2007, which added roughly one dollar per hundredweight to the cost of producing potatoes.

The percentage increase in ownership

costs was less than the increase in operating costs, but ownership costs still increased at double-digit amounts of 12 to 15 percent. This added about another \$.20 to \$.25 per hundredweight to the cost. Overall, cost increases per hundredweight in 2008 were up \$1.20 to \$1.30 over 2007.

It's imperative to realize that the above costs are not your costs, but producers who have developed their own cost of production records would likely agree that UI cost estimates are reasonably accurate. However, more now than ever, it's important for producers to keep accurate records so they know their cost of production. Sound financial decisions can only be made if you have accurate and sys-

tematically organized information. And, the more detailed your records—even by a field by field basis—the better information you'll have to make these decisions.

It may seem a daunting task to monitor revenue (income) and expenses by field, but using a computerized accounting and

Table 1. Per acre and percentage change in costs from 2007 to 2008 for irrigated Russet Burbank Potatoes: with storage costs and fumigation

Item	Southwestern Idaho Change form 2007		Southcentral Idaho Change form 2007		Eastern Idaho Change from 2007	
	Yield		Yield		Yield	
Yield	0	0.00%	5	1.10%	5	1.30%
Operating Inputs	\$	%	\$	%	\$	%
Seed:	\$37.95	13.00%	\$27.60	9.90%	\$28.35	12.10%
Fertilizer:	\$288.60	82.30%	\$264.50	75.50%	\$244.70	75.60%
Pesticides:	\$72.68	18.50%	\$48.17	16.10%	\$38.65	15.80%
Custom & Consultants:	\$5.00	7.60%	\$13.50	12.20%	\$3.35	6.30%
Irrigation:	\$10.70	11.70%	\$7.00	7.90%	\$6.25	9.20%
Machinery:	\$67.39	39.30%	\$45.77	35.30%	\$50.35	34.70%
Labor:	\$9.77	6.10%	\$9.78	6.60%	\$7.68	5.90%
Storage:	\$13.86	4.10%	\$15.71	5.20%	\$14.09	5.40%
Other:	\$4.00	3.60%	\$7.60	7.10%	\$4.75	5.00%
Operating Interest	\$2.99	3.80%	\$1.85	2.80%	\$1.49	2.50%
Total Operating Costs	\$512.94	25.00%	\$441.48	23.40%	\$399.66	24.80%
Operating Costs per Unit	\$1.02	25.00%	\$0.92	22.10%	\$0.97	23.20%
Ownership Costs						
Potato Storage System	\$12.00	6.20%	\$11.00	6.30%	\$12.00	8.10%
Tractors & Equipment	\$25.38	9.20%	\$16.48	9.50%	\$18.33	9.90%
Land *	\$75.00	14.30%	\$75.00	16.70%	\$50.00	15.40%
Overhead	\$11.00	21.60%	\$9.00	19.10%	\$9.00	22.00%
Management Fee	\$15.00	10.70%	\$15.00	13.60%	\$10.00	10.00%
Total Ownership Costs	\$139.26	11.70%	\$127.25	13.30%	\$100.15	12.40%
Ownership Costs per Unit	\$0.28	11.70%	\$0.26	12.00%	\$0.23	11.00%
Total Costs						
Total Costs per Acre	\$652.20	20.10%	\$568.73	20.00%	\$499.81	20.70%
Total Cost per Unit	\$1.29	20.10%	\$1.18	18.70%	\$1.20	19.10%

\$290. On a percentage basis, fertilizer costs per acre were up 75 to 82 percent. Machinery costs per acre, which includes fuel, lubricants and machinery repairs, were up 33 to 40 percent. Pesticide costs also saw double-digit increases of 16 to 19 percent, and seed costs rose 10 to 13 percent. Over-

recordkeeping system will make it less intimidating. Costs are placed in one of two general categories: operating (also referred to as variable) costs or ownership (also referred to as fixed) costs. Operating costs include inputs that are typically used up in producing the crop and vary directly with the level of production such as seed and fertilizer. Ownership costs do not vary with the level of production and include the cost recovery for inputs that generally last more than one production cycle, for example, equipment and buildings.

If you ask growers, most would likely say that it's relatively easy to track and assign variable costs to each crop, for example, fertilizer. However, tracking and allocating ownership costs, say, a tractor used for multiple crops, may frustrate many growers.

Regardless of the record-keeping system used, it should account for expenses in as simple a method possible by considering what is practical, not what is theoretically possible. Tracking ownership cost of a tractor to a crop is possible and likely practical. On the other hand, tracking fuel to an individual field may be possible, but not practical. It's better to track some expenses on a whole-farm basis, and then "allocate" them to individual crop enterprises using a simple, yet accurate, allocation method.

If you don't already have a system or you don't like the one you're using, you may want to evaluate the Crop Enterprise

Budget Worksheet program (CEBW) from the UI. This stand-alone Windows-based program is found at www.ag.uidaho.edu/aers. Under the "Resources" menu, click on "Software," and select "Crop Enterprise Budget." This software will help you build a crop-specific enterprise budget. An extremely useful feature in the CEBW program is the user can set up multiple crop budgets in a single file and allocate whole-farm expenses to them. While all your potatoes can be treated as a single enterprise, a more useful procedure is to treat each field as a separate enterprise. This is especially crucial if you rent land or have significant variation in yield and production expenses among fields.

The CEBW program is not a record-keeping system per se. It is primarily a budgeting and analytical tool. But, detailed enterprise budgets developed with CEBW can become an important record stored for future reference. The CEBW can also easily provide you with a breakeven/sensitivity analysis, and it allows you to compare gross margin breakeven values of existing or alternative crops. The program will also quickly provide a whole farm cost summary and an operating cost summary.

Be forewarned that setting up your crop enterprise budgets will still take time and effort the first time. Don't get frustrated because once you have a budget set up, it's simple to make a copy of the file and revise it for the next year. Give it a try. You may be surprised how useful this pro-

gram will be in helping you make management decisions especially with the increased costs you've recently experienced. Workshops on the CEBW program are held each year at the University of Idaho Potato Conference, scheduled for January 21-22, 2009.

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Did You Know?

The United States produces just over 5 percent of all potatoes in the world.

Metam Re-registration

Metam sodium and metam potassium fumigants, such as Vapam, are in the process of being re-registered, which will affect the way they are used. Producers can review the re-registration document and may want to make comments to EPA. The document can be found at www.epa.gov/oppsrrd1/REDS/metamsodium-red.pdf.

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