

# An Introduction to Florida Commodity Enterprise Budgets: A Tool to Improve Farm Business Planning<sup>1</sup>

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## Farm Planning and Enterprise Budgets

Growers and ranchers make choices daily to allocate scarce capital, labor, and land resources within their farming operations. Financial information is important to help guide these decisions. This is especially true when growers or ranchers are considering new enterprises or changes to existing operations. The farm financial planning process can be murky because each manager faces a set of challenges and opportunities specific to their operation.

Enterprise budgets are a key element within farm planning that provide estimates of expenses, potential revenue, and profit (Crawford 1999). UF/IFAS provides enterprise budgets for a variety of Florida-grown commodities to help support growers and ranchers in their decision-making process. These budgets are typically built collaboratively among economists, horticulturists and agronomists, ranchers, and growers who share their experience and expertise. In this publication, we highlight key aspects of the enterprise budget as a planning tool for farm businesses. At the

end of the publication, we provide links to published UF/IFAS enterprise budgets and related tools specific to several Florida commodities grown statewide.

## Key Features of Enterprise Budgets

Whereas financial statements, such as an income statement, cash flow statement, or balance sheet, are typically prepared for the whole farm, an enterprise budget focuses on an individual enterprise within the farm for a future time period (Smith, McCorkle, and Outlaw 2000). An enterprise may be a single crop, an animal species, or any other component of the overall farm business that generates a revenue stream. Enterprise budgets provide estimates of expected annual costs, yields, prices, and returns for the individual farm enterprise. University-prepared enterprise budgets are typically based on recommended practices or common practices for a region. However, every grower or rancher is unique and will have different costs and returns. Adapting an enterprise budget to represent the conditions of a specific operation allows growers and ranchers to better plan allocation of scarce resources available for a given year.

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In an enterprise budget, production, planting, pre-harvest, and harvesting costs are detailed for a standard unit. For example, field crop cost and return estimates are typically calculated on a per-acre basis. For livestock operations, these estimates may be per head of cattle, and for greenhouse operations, these estimates may be per greenhouse bay or square foot. Annual yields are provided based on average growing conditions typical for the location. Annual revenues are calculated based on current market conditions and expected yields and may be used as a benchmark to measure the grower's expectations relative to anticipated market movements.

A motivating factor for tackling a new enterprise is the desire to find new ways to allocate existing resources with unused capacity. Costly farm resources, such as equipment, buildings, or irrigation systems, may go unused for a part of a year. A flexible enterprise budget enables a grower or rancher to adjust variable and fixed cost estimates to match their existing resources and expenses.

Sensitivity analyses are often included in the enterprise budgets. These allow the growers to analyze the potential risk to their profits given market or production shocks, such as changes in consumer preferences or relatively higher fertilizer prices.

The flexibility of the enterprise budget provides value to growers who recognize how this tool may improve the planning process to increase profitability. Field data as well as regular updates to the budgets by Extension experts help capture information related to changes in input prices (such as fuel or fertilizer, labor, or regulatory policies) or technology (such as equipment upgrades or new purchases). Keep in mind that university-prepared budgets are not statistical averages for a region, but are sample budgets intended to reflect either recommended practices or common practices. When considering new locations, estimated yields may be changed to account for varying physical conditions across the state, such as soil health and weather patterns. Estimated costs of materials may be adjusted to capture savings from purchasing inputs in bulk or sharing packing and harvesting costs through cooperative arrangements. Estimated revenues are based on average market prices and can be modified to accurately represent prices received by an individual farmer. For example, different prices are received at each market outlet, such as sales made through a broker, at a roadside stand or online farmers' market, or via direct marketing connections like restaurants or retailers.

## Economics of Alternative Enterprises

Economists provide insights and information that help growers make decisions to manage scarce resources and improve farm profitability (Van Tassell, Parsons, and McClure 2020). Assessing costs and revenues resulting from investment in a new enterprise helps inform business planning. For example, adoption of a pest- and disease-management practice may result in both reduced input costs and access to new markets where consumers are willing to pay premium prices for safer products. Alternatively, a new enterprise may have the potential to utilize workers year-round, ensuring continued access to staff, which reduces the time and stressors related to attracting and training new people and allows for strengthening relationships between owners and employees. Enterprise alternatives may even offer opportunities for the next generation to stay on the farm, thus providing the foundation for a long-term career in the farm business.

## Resources Available at UF/IFAS

More information on specific crop and livestock enterprises and UF/IFAS Enterprise Budgets may be located on various UF/IFAS websites.

The UF/IFAS Tropical Research and Extension Center offers tropical fruit enterprise budgets at <https://agecon.centers.ufl.edu/CommoditiesFruit.htm>, and new budgets are forthcoming for mangos, guavas, and lychees in English or Spanish.

The UF/IFAS North Florida Enterprise Budget website has budgets for orchard crops, greenhouse hydroponics, and watermelons specific to north Florida, available at <https://svaec.ifas.ufl.edu/extension-programs/agricultural-economics/north-florida-enterprise-budgets/>.

Florida beef cattle and forage budgets may be found at <https://rcrec-ona.ifas.ufl.edu/faculty-directory/chris-prevatt/>.

The UF/IFAS Food and Resource Economics Department website also includes interactive tools that help with several aspects of farm financial analysis at <http://agecon.centers.ufl.edu/InteractiveTools.htm>.

To learn more, search on <https://edis.ifas.ufl.edu> for publications on specific budgets, such as peaches. In cases where the budgets may be dated, we suggest growers and ranchers review the companion spreadsheets as frameworks which

may be modified to inform decisions when evaluating new enterprises.

## References

Crawford, E. W. 1999. "Notes On An Analytical Framework For Enterprise Budgets In Financial And Economic Analysis." Staff Paper Series 11672, Michigan State University, Department of Agricultural, Food, and Resource Economics. Accessed January 2021 from <https://ideas.repec.org/p/ags/midasp/11672.html>

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