ON THE COVER

Oregon cherry grower Mel Omeg, left, is a believer in Oregon State University agricultural economist Clark Seavert's model for evaluating profitability.

Photos by David Eddy

Pumping Up Profits

Savvy tree fruit growers don't just cut costs — they maximize returns.

By David Eddy
Senior Western Editor

MOST U.S. fruit growers are missing out on the one thing that could give them the greatest chance of running a healthy, profitable operation: checking their daily pack-out reports. It's the one way for growers to know not just how certain types of fruit and varieties are performing, says Oregon State University Agricultural Economist Clark Seavert, but how their farm is performing at a micro level. "Growers should see their pack-outs as report cards for their particular blocks," he says. "By requesting pack-out information from their packinghouse for individual blocks, they are able to carefully analyze the information and clearly identify the targeted fruit from that block."

Mel Omeg is now a believer. A cherry grower who farms 350 acres in The Dalles, OR, Omeg decided that if he were going to increase his chances for success, he needed to break his farm down block by block. Sure, he had a sense of what was going on, but when he got the pack-out information and used it to perform an in-depth assessment, he was stunned. For example, he had an older Royal Ann block that he knew needed to be pulled out, but after doing the analysis he realized just how much it needed to go. Over the next 20 years, he stood to lose $19,000 an acre.

The old Royal Ann block was just one example of what Omeg learned from the assessment that Seavert developed, which he terms Crop Profitability Analysis (CPA). For instance, Omeg knew that high-density orchards were more profitable than older, traditional orchards with wider spacing. But the traditional orchards were making money, so he had left them alone. But after running the CPA, he found that the older blocks not only had lower yields, but were producing far too much smaller, poor quality fruit. "In fact," said Omeg, "some of those blocks were barely breaking even." (For more on CPA, check out the Web site: ***http://oregonstate.edu/oain*** and click on "AgTools for Managing Risk.")

Rip 'Em Out

Omeg found he would be much better off pulling out the older blocks and

Avoid The Death Spiral

THE chief problem for a lot of growers is that their farms are just barely profitable. It's one reason many growers are so eager to cut costs, says Oregon State University Agricultural Economist Clark Seavert, but will avoid spending another dime to increase revenues. "That's what makes it so difficult for those who are right on the margin in terms of spending," he says. "Cash is king."

But they've simply got to rethink that strategy, because it's a game plan for losing. "When you cut costs to save money you're caught in a spiral, because your quality goes down," Seavert says. "And when your quality goes down, your profits go down even more."

It doesn't take an economist to see where that strategy is heading. But how to increase quality when you don't have the cash to invest in the practices that will increase quality and, therefore, profits? Those growers will simply have to take a very hard look at their operations. "Look internally and start assessing your blocks," says Seavert. "If there are any losers, get rid of them."

Many growers are resistant to pulling blocks because they think they have to have something in the ground. Seavert has heard that a lot from apple growers about their old Red Delicious blocks. Yes, those old trees aren't consistently paying off, but some years they make money. And besides, the growers argue, they can't afford to replant a newer variety. How does Seavert respond? "They might not be losers every year, but over time, they're losers," he says. "You're better off taking them out and spreading those dollars over other acreage."

Growers who want to avoid the death spiral should remind themselves that it's not about quantity, it's about quality. Any block that isn't producing high-quality fruit should be pulled, says Seavert, getting back to the advice he gives those growers who can't bear to see their land going fallow. "Instead of farming 100 acres, you're going to farm 80 acres," he says, pausing for emphasis, "but you're going to do it well."

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replanting dwarfing trees with 8 feet by 16 feet spacing. Not only would yield and quality be increased, but he would get 50% more production out of his workers because they wouldn't be wasting time with ladders, etc. In doing a 20-year CPA, he learned that the high-density dwarfing blocks would cost $1,000 more per acre annually than the traditional blocks, but his returns would be $3,000 per year higher. "We were better off pushing out the older blocks, borrowing money, and replanting," he says.

But perhaps the most startling realization of all came from learning just how much quality pays off. Sure, Omeg knew that he got paid a lot more for size 9 cherries than size 11, but he didn't know exactly how much that impacted his total profits. He also didn't realize how much investing in getting bigger, better-quality fruit paid off. (See chart "Cost Minimization vs. Profit Maximization") For example, one of the best ways to get better size is through pruning, so despite the quickly rising cost of labor in recent years, Omeg would never consider cutting corners there. "If we need to spend $600 an acre for pruning," he says with a shrug, "well, that's what we need."

Quality is so important that Omeg learned that some blocks will simply never be profitable. The CPA will show that quite clearly, though Seavert says he's learned that growers already have a pretty good idea of which blocks need to go. "If your county Extension agent is coming out to give a tour, what blocks don't you want them to see? Identify those losers," he says, "and get them out of there."

After running Clark Seavert's Crop Profitability Analysis, Oregon cherry grower Mel Omeg found that some of his older blocks were barely breaking even.

Pulling out trees is tough, Seavert concedes. But in today's tree fruit industry, you have to be tough to survive. In fact, that's why he believes so many growers look to cutting costs, because it's a lot easier than biting the bullet and investing in quality. It's just that it doesn't always make financial sense, particularly after the tough times the tree fruit industry has undergone. "If you can cut your costs — without impacting your revenues — cut your costs," says Seavert. "But in today's environment, most growers have already cut to the bone, and there's no more to cut." ●

E-mail questions or comments about this article to deddy@meistermedia.com.

Cost Minimization Vs. Profit Maximization

THE chart below shows how little a grower saves by simply cutting costs when compared to increasing quality. The analysis uses the "Technology's Economic Assessment Model" developed by Oregon State University agricultural economist Clark Seavert. This specific example is based on a Gala apple orchard.

Input	Reduction To Input	Savings Over 10 Years (Per Acre)
Pruning or Thinning Labor	-10%	$435
Sprayer and Labor Time	-10%	$35
Chemical Costs	-10%	$359
Fertilizer Costs	-10%	$51
Fruit Quality (Decrease Culls)	-10%	$980
Fruit Quality (Increase Washington Extra Fancy Premium)	+10%	$1,696
Fruit Size (Increase 88 Size and Larger)	+10%	$3,582