Introduction

- Cost of Production Changes
- Reasons
- Monitoring Cost of Production
- Managing Cost of Production
- Fundamental Changes In the Potato Market
- Opportunities and Threats
UK Potato Cost of Production Changes (Including rent and Finance)

23% Cost Increase 2008-2012
Indexed Fertiliser Prices (2005 =100), Defra
Indexed Energy Prices (2005 =100), Defra
Indexed Machinery Prices (2005 =100), Defra

Maintenance and repair of plant
Machinery and other equipment
Monitoring Cost of Production

- Too many growers do not know how much it costs to grow their crop!!
- Potato Council Benchmark
Managing The Crop

- Huge variation between individual growers
- Scale / soils / geography
- Technical ability / application / management
- Profit is driven by margin not per hectare cost - must not compromise technical efficiency and saleable yield

Reducing cost and risk through investing in knowledge
Yield, Quality and Cost of Production

- Yields have a vital part to play in reducing costs of production
- In the potato crop it is saleable yield that matters!
Impact of Yield on Cost of Production

The graph shows the cost per ton (t/ha) at various yields, with a 20% lower cost at specific yields.
Fundamental Changes in the Potato Market
Trends in Planted Area and Number of Growers (AHDB)
Yield per Hectare and Total Production (AHDB)
Planted Area Per Grower (AHDB)
Threats

- A divergence of costs of production with crop prices means that grower margins are squeezed – threat – grower bankruptcy
- Growers see better margins and lower risks in other crops – threat – growers reduce potato area or give up potatoes
- Result – insufficient supply of potatoes
Threats 2

- Prices rise to compensate growers for increased costs
- Threat – imported potatoes replace UK crop
- Threat – customers increase switch from potatoes to pasta, rice, etc.
Opportunities

- A catalyst for change
- We need a new approach
- We must preserve a mechanism to drive down unit costs to keep the industry competitive
- However we must also increase cooperation in the supply chain and find stability for growers, processors and packers
Supply Chain Approach

- Potato market has fundamentally changed
- The spot market serves nobody's interests – too volatile
- Potato margins are under threat from other crops
- We must invest in knowledge and infrastructure
- Can only be achieved where there is a joined up long term supply chain approach
Conclusions

- Understand your cost of production
- Where will you earn greatest returns
- Take into account paid yield, cost of quality, cost & risk of storage
- Prices below cost of production are unsustainable for whole supply chain
- Increasing sold yield per hectare is essential for survival
- Whole supply chain approach