



GROSS MARGIN ANALYSIS FOR AN AVOCADO ENTERPRISE





Introduction

Gross Margin Analysis (GMA) is a simple, reliable tool to assess the financial performance of an enterprise. Gross profit for an Avocado farm is calculated by subtracting the expenses (cost of goods sold) from the sale revenue received. It is the margin of money left over after you've sold the product and paid for the direct expenses. It is calculated as follows:

Gross Profit = Sales – Cost of Goods Sold / cost of production.
Sales are equivalent to revenue, or the total amount of money generated from sales for the period. **Cost of Goods Sold (COGS)** are the direct costs associated with producing goods.

What Is the Difference Between Gross Margin and Gross Profit?

Gross margin and gross profit are often used interchangeably, yet they are two different metrics that companies/farms use to measure and express their profitability. While they both factor in a company's revenue and the cost of goods sold, they differ slightly. Gross profit is revenue less the cost of goods sold, which is expressed as a figure. A company's gross margin is the gross profit compared to its sales and is expressed as a percentage.

Gross Margin Formula

The formula to calculate the gross profit margin is as follows:

$$\text{Gross Margin (\%)} = \text{Gross Profit} \div \text{Revenue}$$

Where:

- Gross Profit = Revenue – Cost of Goods Sold (COGS).
- Revenue = Total sales.

To express the metric in percentage form, the resulting decimal value figure must be multiplied by 100.

Major costs related to Production and Marketing:

Fixed costs are costs also commonly known as overhead costs. They include costs that must be paid regardless of any activity or sales produced. Fixed costs are incurred even if the business does nothing over time. Examples include paying full-time staff, paying for office space, housing, equipment, and interest expense on loans.

Variable costs are costs that change based on output or the level of production. For example, in an Avocado farm, costs include land preparation, digging of holes, seedlings, planting, manure, fertilizer, agrochemicals, pruning, harvesting, and transportation.

Gross margin analysis for one acre of Avocado

Cost Item	Unit	Quantity	Cost per	Yr1	Yr2	Yr3	Yr4	Yr5	Yr 7(Peak)
			unit						
Variable costs									
Soil & Water Analysis	No	1	3000	3000					
Ploughing and harrowing)		1	6000	6000					
Seedlings (grafted)	No	144	140	20160					
Digging of holes	No	144	50	7200					
Manure	Kgs	140	70	9800			9800	9800	
DAP Fertilizer	Kgs	7	140	980			0		
Top dressing fertilizer	Kgs	25	150	3750	3750	3750	3750	4125	4125
Foliar fertilizer	Litres	1	1200	1200	1200	1200	1200	1320	1320
Insecticides	Litres	2	500	1000	1000	1000	1000	1100	11000
Fungicides	Litres	2	500	1000	1000	1000	1000	1100	11000
Sub-total			11750	54090	6950	6950	16750	17445	27445
Labour costs									
Spraying	Mandays	2	400	800	800	800	800	880	880
Weeding	Mandays	10	400	4000	4000	4000	4000	4400	4400
Top dressing	Mandays	2	400	800	800	800	800	880	880
Pruning	Mandays	3	0	0	0	0	0	0	0
Harvesting	Mandays	8	400	0	0	0	0	3520	3520
Sub-total				5600	5600	5600	5600	9680	9680
Total Cost of Production				59690	12550	12550	22350	27125	37125
Yield per acre (Kgs/fruit)	Fruits					5760	21600	36000	72000
Price per fruit	Fruits						13	15	16
Total Revenue						74880	324000	576000	1296000
Gross Margin						62330	301650	548875	1258875
Earnings per month						5194.2	25138	45739.6	104906.3



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KALRO/NAVCDP/AVOCADO/BROCHURE No.205/2024

