Gross margin I, II, III

For situations, in which there are variable costs for capital (current assets), labour (production), land, etc., they should be taken into account in the calculation of the gross margin step by step. In order to distinguish the indicators, which appear in this way, from the gross margin applied in practice they are called gross margin I, II, III.

By means of the step-by-step calculation it is possible to check to what point the estimated costs are still covered (gross margin I, II, III).

If the net profit is negative and the gross margin III is still positive, (in the example: 202.1 €/ha) it means that only a part of the fixed costs is covered and, therefore:

a) in the long run (that is: with present replacement investment) it is not profitable to continue the production.

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b) an increase or an extension of production scale with a complete investment is not profitable.

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For a short time the operation of production is nevertheless reasonable as long as the factors considered to be fixed (machinery, buildings, etc.) are further available. The reason for this is that the fixed costs should be covered anyway (also when the production is operated) and, therefore, the loss is lower when the production is operated when the factors are used alternatively.

As long as all variable costs are covered, it is economically reasonable to continue production, since the used factors have a better rate of return as when they are used alternatively.

Since it depends on each specific farm situation, which of the facultative variable factors (compare chapter 4) in the given case are fixed or variable, it should be decided exclusively, which of the gross margins I, II, III must be positive in order for the production (within the available fixed capacities) to be reasonable.