

Becoming your own prophet of profit

In the current economy, predicting and managing costs is the most reliable way to stay in the black



*By Clark F. Seavert
and James W. Julian*

Production costs and product pricing have a great impact on the profitability of a nursery business.

Determining your cost of production for a particular plant is hard work that takes time and commitment from the people in the business. However, that effort can be very rewarding when talking with your lender or determining new marketing strategies with your business partners.

At the OAN Convention in September, titled "Back in the Black," Steve Gold of Midas Nursery Solutions made a great presentation on nursery automation. He pointed out that in

The process of producing plant material requires many different ingredients (water, fertilizer, medium and starts), as well as many different actions that are taken by employees (planting, transplanting, watering, feeding, trimming and more). All cost money. The nurseries that get a reliable handle on their costs are the ones most likely to be profitable in today's economy, where the market limits price hikes.

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“Shifting them up” — the repotting of plants in larger containers — has a cost, but it also may mean that the product can be sold for a higher price. Maybe, but not always. Sharp growers will understand who their customers are, and only do those production steps that increase what the customer is willing to pay.

2007, growers had a business formula of cost plus profit equals the price of the plant. Nursery producers could almost name their price for their plants and most times receive it.

Since 2007, that formula has changed drastically due to the effects of the economy, as he was quick to point out. Today, the price of the plant minus the costs equals the profit. Currently, most plants on the market are not selling for more than their cost of production. Costs are the only thing you as a grower can control, and thus profits are virtually nonexistent.

Josh Lehner, economic analyst for the State of Oregon, was also a speaker at the Convention. He presented an update on the national and state economic situation. Not all that he presented was bad news, but several points important to the nursery industry were.

First of all, the picture in terms of employment and housing construction is not pretty. Oregon’s employment is projected to be down slightly during the next year, with stronger growth in employment expected to return around 2012 to 2013. That in turn has a negative effect on the housing market and new construction.

The housing market needs to improve before Oregon can experience an economic recovery. However, new housing construction is not expected to improve until 2013. This is an indication that Oregon’s economy perhaps will be stagnant until 2013. This will have dramatic financial consequences for the nursery industry.

What’s the cure?

If all this information makes you wonder, “What am I going to do?” you

are not alone. Many people are wondering what they can do to ride this economic wave to better times.

One such tool is a business plan. If you have one, revisit it. If you don’t have one, develop one. It is the best exercise your business can do to develop a road map for success.

A business plan is a written document outlining the goals, objectives and strategies for the key functional areas of your business including management, finance, production, and marketing operations. It can be a few pages or a hundred pages. The key is to spend time thinking about your business and how to go forward from here.

Now is the time to think about your operation and determine why your customers are your customers. What is the value they get from doing business with you? How many of the products

and services you offer are critical to the identity of your business? Which are the ones that customers really value, and which are just a legacy from more plentiful times? This process will help you define your core business.

At the same time you should also review your customer base and sort the good from the not so good, because not all customers are equal or profitable. High-service, low-margin customers eat away at profit in unnoticed ways. For example, the more time spent addressing their needs takes away from time to develop relationships with new, higher margin, customers.


These are critical times. In order to survive until the better times ahead you have to get out of your comfort zone and question what you are doing, why you are doing it, and for whom.

Tools for profits

If there was ever a time to begin preparing for your financial future in the nursery industry, it is now. You can't read an industry magazine or newspaper without being reminded of the economic factors that plague the nation and state of Oregon.

Every nursery business owner should understand their operation's strengths and the financial risks that may adversely impact their success. To fully understand these strengths and weaknesses, a nursery needs to understand the true costs of production. Factors involved in the cost of producing a plant go beyond standard inputs, such as fertilizer, energy, equipment purchases and management, and supplies.

Consider, for example, your operation's space. How much is dedicated to plant production? How much is allocated for non-production (such as a display garden)? To understand the cost of the square footage for each area, many factors can be considered, such as energy use for that space based on the production activity, type of plant and its



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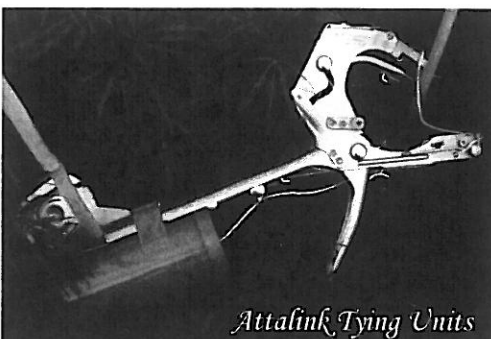
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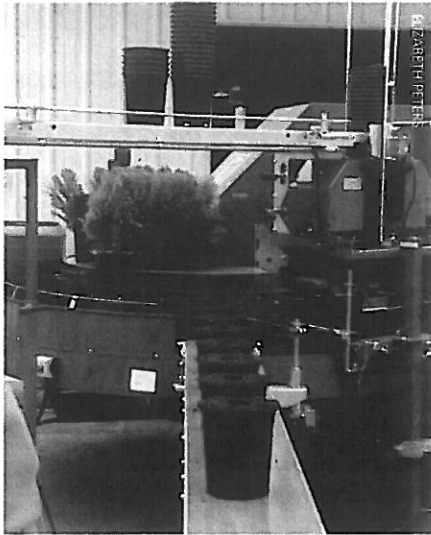
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Some nursery producers may have workers to pot their seedlings by hand, while others invest in machinery to make the job run more smoothly. The obvious portions of the cost formula include the labor and the machinery, but one must also consider the cost of the space used for production.

required labor costs, utilities, insurance, improvements, supplies, and so on.

It is an arduous process to develop cost of production information, but the end result can be very rewarding. One tool available to help nurseries is the Nursery Cost and Profit Estimator Program. Developed by the University of Arizona and Hawaii, it's a three-dimensional spreadsheet that guides growers in costing containerized nursery stock.

Other tools available for analyzing waste and value in operations are the new Lean program and Sustainability Initiative, provided by the Oregon Association of Nurseries.

How nursery businesses respond to the current financial crisis will most likely determine their financial liquidity, solvency and repayment capacity

as the economy slowly recovers in the future. Having the tools to evaluate pricing structures, market strategies, new products, implementing technologies and generally answering the "what if" questions is a critical component to long-term sustainability in this time of uncertainty.

Take the time, effort and energy to build a successful nursery business for when the good times return. They will return, but it's up to you to determine where you will be in the industry when they do. ©

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