THE IMPORTANCE OF COSTINGS FOR EFFECTIVE MANAGEMENT

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When I first joined the nursery business in the 50's I was introduced to pricing of nursery stock by my boss saying, "Find out what other nurseries are charging? What is our stock availability? What is the availability within the trade? How many did we sell last year?"

Having sweated blood to obtain this, very little notice was taken of it as each proprietor played his hunch — "Oh, that plant will stand another shilling".

Nobody could tell me what contribution that plant made to the business. The attitude was, "We are making money, so what the hell". Now that margins are being squeezed, further information must become available to enable management to plan ahead of inflation. Once a nursery reaches the slippery slope to Financial Trouble there is nothing that can be done unless the details and reasons are obtainable quickly. This applies to a general nursery more than the specialist grower.

Most well run nursery businesses produce an annual trading budget with profit forecast. A simple but important exercise:

	Sales
Purchases	
Production cost	
Direct expenses	
	Gross contribution
Central costs	
	Net profit on trading

This will be followed by the introduction of a cash flow forecast — probably the most important financial information, especially today with interest charges so high and a seasonal sales pattern.

Maybe at this stage the picture looks satisfactory but have the following points been thoroughly examined? (a) Proper valuation of saleable stock. (b) Are the products available in the right mix? (c) Are the returns expected sufficient for the capital employed? (d) What will be the effect if the sales targets are not achieved? (e) Immediate action in the case of (d) above.

I would expect that very few nurseries today are achieving the right return on capital employed which must be in the region of 30%. The main problem is in assessing the capital employed particularly with regard to nursery growing stock. By doing a thorough job on costing this will come to light and give management a good idea of the actual capital invested in the business. But let's start at the beginning and then I can bring out all the important by-products produced from a good costing system and how they can assist management.

Firstly, the relevant data must be obtained from what is going on in the nursery. There are many ways of doing this, but we found individual employee daily time sheets to be most satisfactory in conjunction with foreman's weekly report sheets. Eighty-two different operations were identified and listed and, therefore, time could be attributed to each. Standards of achievement had been agreed previously with all the staff so, from this exercise, management could see: (a) the time consuming jobs; (b) the efficiency of each operation against standards.

The next step was to code all plants grown on the nurseries, for simplicity's sake, and then group all plants with similar production techniques into a product group. With labour costs identified all that was necessary to add was the material content of each group/item to give the total production costs.

The important fact that emerged here was that costs had been built up on an annual basis which gave management the opportunity to determine whether there was a case for buying in at the one or two-year stage, or not continuing to grow that particular item at all.

However, before confident decisions could be taken it was necessary to complete the picture by costing in two more highly important factors — (1) The loss rate between rooted cutting stage and saleable (or bad grading); (2) Overhead costs apportioned at wages percentage rate and labour-hour rate. Example — overheads attributed to Rhodo is 15p

At this stage there were no reliable figures on losses so mathematical calculations were provided at various levels of survival. This illustrated the fact that although stock records were kept they were not sufficiently detailed to keep management informed as to what was or was not coming on, so a simple plant recording system was started and is still in operation. The data collecting is no longer continued for no other reason than there is now a wealth of information gained over two years, so at any time it is quite a simple matter to check on a particular operation and up-date the costs.

The final costing to produce a rate of return pricing policy gave some surprises, viz:

(1) Although there are certain differences in the difficulty of producing some of the plants within a group, the production

methods are similar. The effect of this is that one should be able to say that all plants in a particular grouping cost the same. However when it comes to the selling of deciduous shrubs produced in the same method prices vary from 45p to £ 2.25p.

(2) Early expenditure in a plant life, like soil sterilisation, although in itself not very expensive, related to the crop (say £ 300 per acre) becomes a major part of the selling price due to the cost of financing this expenditure for 4-5 years. As far as *Malus* 'John Downie' is concerned the effect is to put up the cost of the tree by 12p per saleable unit.

(3) Across the board there is a considerable change in pricing structure and consequently the contribution will vary considerably within any group. The ideal would be to grow one line by the million that shows the best contribution which obviously is not possible. Rhododendrons, dwarf conifers, trees from seed, and certain shrubs can produce a reasonable return, barring major losses. However, trained fruit trees and other worked trees which were always thought to be profitable have proved to be the reverse. A detailed investigation into cutting production costs and obtaining higher productivity is proving quite successful as far as trained fruit is concerned, i.e. training *in situ* (not transplanting). Small drill for staking — two-men team of tyers, one highly skilled to shape the tree, the other to follow up. Even then the price will have to be increased.

(4) Before deciding to dispense with a particular line, management has to consider the total volume of sales of any plant group and its value as a sales aid for other types of production. Potted herbaceous is a classic example and only represents 2½% of the total sales.

(5) To go flat out for the high yield groups, such as common trees, could produce other management headaches like marketing and distribution. The main market for those being Public Authorities, where there is liable to be a considerable reduction in expenditure.

(6) Product group No. 5 (156 kinds of deciduous shrubs) were costed out, open-ground-grown, and pot-grown, the difference being 11p more expensive to pot-grow. A further exercise proved that containerising a saleable shrub was cheaper but the loss was higher and yet to be established. More money has to be asked for container-grown shrubs, probably in excess of 15p.

(7) Popular cries, "like it doesn't matter if we have not sold these conifers, rhododendrons, etc.; they will grow into money", at the present time is a load of "Cod's wallop" unless, of course, the price for bigger stuff can be considerably increased. This costing data has enabled management to build up a programme of work well in advance which has had a two-fold effect: (1) that the

timings for each operation can be adhered to (very important in container growing); (2) that there would not be the labour on the land/standing ground to properly attend to the stock that is so-called "growing into money". By all means grow 5/6' rhododendrons and conifers, but programme and cost them.

That, then, is the broad picture as to how I see the importance of costing for effective management. A lot more I know will come out of this as time goes by. But like all forms of accounting, it is an aid for management and has to be interpreted by those in command in the light of the prevailing circumstances. It was not so costly to operate as it may sound — it is possible and worth considering, applying a system to a section or line of plant about which there is doubt as to their value to the business.

I would recommend the Wye College publication on managerial and economic aspects of hardy nursery stock production by Hugh Nunn and Mr. Folley at £ 1.25p, including overheads, National Insurance, family allowance, and a 30% return to me. Personally, I agree that further research is warranted on capital investment and rates of return marketing nursery stock.