

It's Not About Price, It's About Value®

Steve McCurdy

Majestic Trees, Chequers Hill, Flamstead, St Albans AL3 8ET United Kingdom

Email: steve@majesticgroup.co.uk

INTRODUCTION

The biggest problem our industry faces, especially critical in the current financial climate, is that we don't understand our costs and don't know how to value our products and sell them for a reasonable return on our investment. If we as nursery owners or directors could get this right everything else would fall into place, as:

- 1) We would have enough money to pay our staff a living wage and more so they could make a proper career out of the job, buy a home, plan for retirement, have nice holidays like their family and friends have, and do all the other things trained professional people now expect.
- 2) We would be able to attract the best staff and keep them, with excellent benefits, pensions, etc., thus making our own lives so much easier and less stressful, and enabling us to put our energies into growing our businesses. Too many nurseries depend on one or two key staff with the rest of the workforce being relatively unskilled.
- 3) We would have the money to invest in the equipment and tools to do the job better and create a more enjoyable workplace producing better crops, resulting in workplaces we and our staff are proud of.
- 4) We would have the money to invest in the future whether it is key staff to help our businesses grow, buying more land, or building the infrastructure required to expand our businesses.
- 5) We would have the money to enjoy a standard of living that a business owner or director should expect and to plan for our own comfortable retirement.
- 6) We would have the money to market our companies and their products to a wider audience as we grow our businesses.

ELEMENTS OF PROFIT

To help us achieve these goals we need to get a grip on two important but often poorly understood concepts in our industry:

Gross Profit. This is the difference between total revenue from sales and the total cost of purchases or materials — and excludes the cost of wages, overheads, etc.

Net Profit. This is the gross profit minus all operating expenses such as wages and overheads — it is what is really left over at the end of the day, the only profit margin that really matters.

Too many growers kid themselves that they are doing well when their gross margins are good. However, if you review the account information filed at Companies House you would see far too many major players with minimal or even negative net profits in the good years, let alone in the current climate. They cannot pay their staff more, invest in their businesses, or do any of the other things they need to do until they increase their prices.

Some examples of net profit in other business and professional sectors:

- Accountants 28.2%
- Tax Consultant 18.6%
- Factoring 18.5%
- Electricity Co 17.7%
- Pawnbrokers 16.1%
- Asset Finance 14.2%
- Dentist 12.9%
- Insurance Co 11.5%
- Stockbroker 11.2%
- Surveyors 11.2%
- Architects 10.9%
- Legal Services 9.9%
- Landscape Co. 6.2%
- Garden Centre 2.2%

Nurseries come out at 2.8% but within that, large nurseries average 3.4% pre-tax profit, while small nurseries have averaged ~1.4% over the last 10 years.

The companies that are run by businessmen who understand finance have the highest pre-tax profits and all pay their staff far better than our industry.

FACTORS TO CONSIDER WHEN CALCULATING MARK-UP

Competitive Factors. These include what your competitors sell for, but you need to consider whether they really are your competition. Just because they grow the same crop as you does not make them your competition.

Perceived Value. The higher your perceived value is, the more the customer will pay for it. Perceived value comes from the desirability of your product, the quality of your service, your image based on how your trucks and premises look and the presentation of your staff, your marketing and how confident you appear to your customers. These should all be reflected in your price.

Brand Value. Does your company have a glamorous image that is worth more?

The Industry's Perceived Value. In general, nursery growers don't think they are worth much. But if we don't talk like professionals, look like professionals, or expect to get paid like professionals, then we won't!

Visual Presentation. Make sure the product looks good and don't forget that details count.

What Did the Product Cost You? That's not what you think it cost, not what it cost before the Euro crashed, but your real cost of producing the finished product — and now you must consider what it will cost to replace it. If your competitor is sold out of a product and is having to buy in new cuttings at a higher Euro price, increase your price too, even if your stock cost less.

Who Are Your Customers? Do you have the products they want and the trained staff to serve them and to provide their every need? If not, either sort it out or find a customer niche that you can serve.

Making Claims. It is important not to make claims about your products and service that you cannot meet as this will only mislead customers and ultimately damage your reputation.

- Don't claim that you are the finest nursery in the country if you know you are not.
- Don't say "we are just off Junction 19" when you are 5 miles away.
- Don't say "we are open 8 AM to 5 PM every day" when the manager and sales staff show up at 8:45 AM and never answer the phone after 4:55 PM.
- Don't say "we have the largest range of herbaceous in the South West" when you know there are two other nurseries that are better.
- And don't have the excuse that you didn't know because you stick your head in the sand and never check out what everyone else is doing.

Instead, make a list of what you are really good at, not what you wish or hope to be good at:

- Product, service, transportation, etc.
- Add to it all the great natural reasons why you should be a success, such as no herbaceous nursery for 75 miles, great main-road site 100 m from the motorway, etc.
- What is your unique selling point? Maybe you have the finest camellia grower in the land as your head grower; maybe you can honestly say "I have personally grafted 5 million roses, and believe me, I know when I see a good one!" Think what makes you special and tell everyone about it.

It is important to understand why your customers buy from you instead of from your competition. For example:

- They have confidence in you and they trust you.
- They believe you are the expert or specialist.
- They believe you offer value — not that you are the cheapest.
- They like your product and want it now.
- You have a product that may be in short supply — if so, that always demands a higher price.
- They are attracted by your brand or labelling.
- They give you word of mouth recommendation.

Remember, if you live by price, you will die by price and the recession will eat you alive if you think price is the answer.

Your costs are going up, your small margins are getting smaller, and if you cut your prices you will have no margins at all — and don't kid yourself that you'll make it up later.

If you have stock that's paid for it is an asset, one you have put a lot of time into growing. If it doesn't have a shelf life, don't give it away, as your cash flow problems will only get worse when you don't have the money to buy new cuttings, fertiliser, pay your staff, and cover all your other costs.