GROWERTALKS

Growers Talk Business

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Use It or Lose It!

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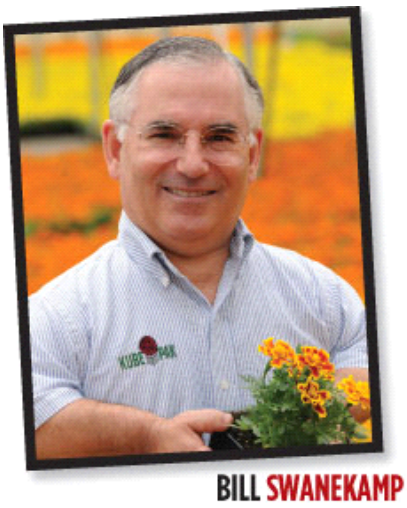

We're all familiar with this popular euphemism that encourages us to use our brainpower as much as possible, lest we lose that ability through lack of use. It's been shown that those who actively use their minds, even in old age, ward off dementia. This pithy saying has a unique application to our industry as well. The more we use the space in our greenhouse throughout the year, the more gross sales we can generate and more crops we can allocate our overhead across. Remember our overhead is the sum of expenses incurred growing our crops that are not direct components of the crops, such as taxes, insurance, fuel, health care benefits, electricity, office expenses, repairs and maintenance, bad debts and waste removal.

This article is the first of four that will deal with cost accounting as it pertains to the greenhouse industry and will focus on space utilization. In the past, most cost-accounting models started by asking the greenhouse operator to sum up the total square feet of covered growing space. This usually included all growing areas, including aisles. We now know we only should only count the area that is actually used for growing. This excludes aisles and shipping areas. In addition to this, we also want to count only the area of the greenhouse that has crops growing in it. For example, if you had 100,000 sq. ft. of greenhouse space and only grew in 1 sq. ft. all year, you would have to allocate all of your overhead to 1 sq. ft., not 100,000 sq. ft. Our goal is to calculate our cost per square foot per week.

What does this mean? It means that we need to calculate the amount of greenhouse space we're using during a specified interval, such as daily, weekly or monthly. I wouldn't recommend increasing the interval to more than a month seeing how quickly a greenhouse can be either filled or emptied. So I would recommend that you track weekly the amount of space that has plants growing in it for 52 weeks of the year. This can be done two ways: one is through a computer system, if it's capable of tracking inventory, or by making a visual inspection of the used greenhouse space each week. As an example, you could make a spreadsheet that mirrors the bays and areas of your greenhouse. Once a week, take a tour of your greenhouse and mark down the percentage of each greenhouse bay that is filled. Then sum up all the areas that are filled and divide this by your total greenhouse area. You now have the percentage of greenhouse space you're using on a weekly basis. We've been doing this for almost three years and the results have been eye opening. On average,

we're using our greenhouse space only around 50%, both winter/spring and summer/fall.

How does this impact our overhead as it's applied to each crop? Well, since we're only using the total capacity of our greenhouse about 50%, our overhead costs are basically doubled. Yes, doubled! Keep in mind you cannot allocate overhead costs to the unused floor of the greenhouse. It has to be allocated to growing crops. To illustrate, if a barber wanted to calculate their overhead per hair cut per week they would have to determine how many haircuts they do each week and then divide the sum of their overhead costs by this number. What if one barbershop had three chairs and another had only one chair? But the barber with the three chairs only used one chair. Would he be able to divide his overhead costs by three? No, because he was only using one chair. The same applies to our greenhouse space. You can only apply overhead costs to the area being used.

Now you can see how the principle of "Use it or Lose it" comes into play. You cannot allocate your overhead to all of your greenhouse space if you're not "using" it all on a weekly basis. Therefore, you "lose" the benefit of spreading your overhead costs to more crops.

That being said, one goal we should all have is to fully utilize our greenhouse space throughout the year. If we increase our space utilization, our overhead can be spread over more crops and our cost per used square foot per week will be less and we can realize more profit. **GT**

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