GROWERTALKS

Growers Talk Business

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Letting the Moths Out

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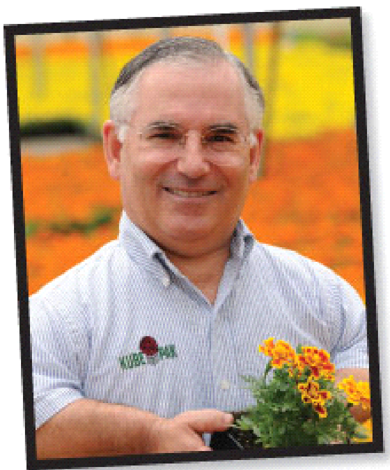

Economical. Prudent. Thrifty. Frugal. Cheap.

These are all words my wife has called me over the years. At first, I was just economical and prudent, but as time went along I became down-right cheap. Not sure what happened, but maybe I got tired of spending so much money. Still, when it comes to running a business, it's necessary to constantly and consistently make capital improvements. If you don't reinvest in your business, over time the structures and equipment will become outdated and maybe even fall down or stop working altogether. Before that happens, it's important to spend your hard-earned money on improving the business.

One way to make capital improvements is to purchase new equipment. This might be done for a number of reasons—one could be because the old equipment is just worn out or there's new equipment on the market that offers such a significant improvement in productivity that making the purchase makes good economic sense.

This is the situation we found ourselves in this summer. We have two very old plug blow-out/replanting machines. They've served us well over the past decades and we've certainly got our money's worth out of them. Unfortunately, they're not fast enough to handle all of our plug fixing and so some of the work has to be done manually. This is very slow and expensive.

But times have changed and we need to adjust to those new times. The new reality is that there's a significant shortage of laborers in New Jersey and I imagine throughout the country. Finding people who want to work in our industry is challenging at best. Also, because there's such a shortage of people willing to work in our industry, we cannot be too selective anymore. This means that if someone isn't performing up to the standard we set, it's hard to let them go because replacing them is not always an option. As a result, we either have to move them to another job in the business or lower our standard for performance at a particular job. When we lower the standard, then inevitably the cost of production goes up. This isn't the most desirable situation.

What's the solution? Purchase new and faster plug-fixing equipment. Now this sounds like a simple idea, but the only problem is this: the cost. These new, modern plug-fixing machines aren't cheap. (There's that word again.) With great pain of heart and much consternation, we had to open the wallet of the company and plunk down almost $400,000 to get one machine.

Hello, did you hear that? One machine. (It's the new TTA plug fixer, by the way.) We have a hard time getting $3.50

for a hardy mum that takes four months to grow and this isn't much more than what we charged 10 years ago. We raised our mum price 10 cents a pot this year and you would have thought we asked for someone's firstborn child. Welcome to the new reality!

The only comfort in this whole situation is the economics of payback. Currently, we produce around 200,000 plug trays per year and all of those trays have to be fixed. We project that we'll save around $1.00 per plug tray in labor costs with the new machine. This means that in under three years, we'll get our money back in the way of labor savings.

Interestingly, 10 years ago, it cost us around 75 cents per tray for fixing, but last year, that number had risen to $2.00 per tray. What happened? As I mentioned previously, the labor pool has shrunk dramatically and it's very hard to find high-quality workers who can work as fast as previous personnel.

Finally, there's one more aspect that assisted us in making our decision to purchase the new equipment: the tax benefits! Currently, the Federal government allows us to take a generous write-off on purchases of new equipment. It's called Section 179. In a nutshell, it states that a company like ours can write off purchases of new equipment up to $1,000,000 for the 2018 tax year. What's the benefit? This means that if we have a profit of over $400,000 for 2018, we can write off the entire purchase and pay no taxes on that profit. This translates into a tax savings of around 35% on $400,000 or about $140,000. So, in the end, the $400,000 machine will only cost us $260,000. Not a bad investment when you look at it this way.

Now I don't feel so bad letting the moths out of my wallet. **GT**

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