

GROWERTALKS

Cover Story

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Cost Conscious

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Since the development of the seed plug, growers have been analyzing the costs to produce that plug from start to finish. It's a perennial topic that gets debated and parsed through in every conversation, multiple trade show sessions and many a magazine article. And since vegetative liners came onto the scene in the 1990s, knowing the economics of producing young plants has been vital to the success of growers and suppliers.

So it's not a new conversation, but knowing your costs is more important than ever because, according to Jim Kennedy, president of Ball Seed, "the cost of being wrong has never been higher."

Figure out your formula

There isn't one magic plug-and-play formula to figure out your costs; you need to know the numbers specific to your operation. And it's not just the cost of the seed,

cuttings, heating, irrigation, lighting and labor—you have to figure in everything.

Bob Dickman, who helps run his family's greenhouse business in Auburn, New York, said that what goes into cost accounting for their operation is "everything that touches a plant before it leaves the dock." The direct costs are obvious, said Bob, but most of the work is in spreading all the overhead costs out evenly. Dickman Farms even looks at depreciation, insurance and administrative costs.

"We put most of that on a cost per square foot per week of bench space," Bob explained. "Then every crop pays for the space it uses and how long it uses it. Shrink and unsold product count as costs, too. A crop with great margin on paper can lose money once you account for what goes in the Dumpster."

Metrolina's Chief Horticulture Officer Ivan Tchakarov said that they look at not just the inputs that go into producing the plant, but the direct interaction staff has with it.

"From a horticultural standpoint, I also want to understand how many times we touch that crop," explained Ivan.

“Transplanting, moving, staking, pinching, pruning, overwintering, shading and other production steps all have a cost. That is something we have worked toward capturing more systematically.”

Once you know all of your costs, you can really delve into them to see where you can adjust or try different things, like switching to a different crop or product form.

For their finished business, Dickman Farms used to sow their own plugs, but now they buy in 288s from another supplier. They had the equipment and expertise to continue to do it themselves, but when they crunched the numbers, they realized it was actually costing them money.

“When we ran the full cost, we had to count the labor to patch empty cells, the extra seed we sowed to make up for poor germination and the bench space tied up for weeks growing plugs instead of finished crops,” said Bob. “Once we counted all of that, buying plugs came out ahead.”

Making adjustments comes down to figuring out whether it’s a cost problem (during production) or a price problem (which requires a conversation with your customers). Sometimes, the numbers may even show the need to drop a product, even if it’s popular. Bob said Dickman’s 10-in. thunbergia cages are a good example of this.

“They sold great, and sell-through was strong every year, but training the vines up the trellis took a huge amount of labor, and once we counted that, the return per square foot just wasn’t there,” he said. “Strong sales hid the fact that the program wasn’t paying for its space. We dropped it and gave that space to crops with a better return per square foot.

“Your greenhouse is your factory. A crop that ties up a bench for 14 weeks has to earn more than one that turns in six. Sometimes a good seller isn’t a good earner and you only find that out by looking at the numbers.”

And the decision to pivot to cut down on costs shouldn’t come at the expense of quality.

“A cheaper production method isn’t really cheaper if it creates more shrink, credits, rework or inconsistency,” said Ivan.

Know your market

Jim grew up in his family’s greenhouse business that his grandfather started in upstate New York (and that his sister, Meg, now runs) and he remembers the greenhouses filled with bedding flats and 1204s. That’s no longer what home gardeners are looking for.

“Today’s consumer wants a patio-ready pot, where they can buy it, put it on the porch tonight and host the party,” said Jim. “So the mixes, the hanging baskets, patio pots, the product form at the finished level has definitely changed.”

The trend for premium patio-ready products saw a huge uptick during COVID and has continued to increase, but consumers are also buying less volume. Data from Dr. Charlie Hall and the Garden Center Group is bearing this out: In general, revenue hasn’t gone down, but total units have. It doesn’t mean that we’re on a downswing; the market has just changed and your customers want something different. Fortunately, today’s better plant genetics and improved inputs have given growers and retailers the components they need to put together more premium programs that can earn those higher price points if their market allows.

“Cost tells you your floor and the market tells you your ceiling,” Bob explained. “We see the market continuing to move toward larger, ready-to-go products. Customers want something that looks finished the day they bring it home. Following that trend, we’ve shifted some of our product mix toward fewer, bigger items at higher prices.

“But that shift only works if the numbers support it. Larger items take more space, more time on the bench and more inputs, so we have to know our costs to be sure the higher price covers them.”

Metrolina has been conducting their own consumer survey for a number of years to gauge specific interests and recognize trends in the multiple markets that they serve, working with their retail partners to come up with new programs that they can test in select stores. CEO Abe VanWingerden said they use cost accounting to determine how to price an item based on space, inputs, labor, touches and timing.

“We never tell a retailer we cannot do an item,” said Abe. “We get the item in the program and work backwards to find adequate cost management on it. That information influences assortment, container size, genetics, production method and where we invest.”

Data from their most recent survey shows that “consumers are trading down, not out,” said Abe, where they’re looking for the same genetics, but in smaller pots. They’re also seeing shoulder-season items for early spring, early summer and fall garnering more interest, so they’re building more programs around items for those specific time-frames.

Two other key trends are price points, specifically on keeping hanging baskets and combos between \$10 and \$20, and an uptick in shade gardening. “Data shows that shade combos are a very under-developed category,” Abe said.

So scrutinize your sales data and look for the patterns. You can still offer the traditional plants that many home gardeners expect to see in a garden center, but there’s also room to be creative. Jim suggests using trends and market intuition to do something unique.

“If you have a customer base that has an eye for new and novel, you can create excitement within your programs,” he said. “And follow the data to make sure you’re not growing something that’s starting to phase out.”

How automation plays its part

When figuring out your costs, any automation you have in your production should also be included. If you have a transplanter, calculating the number of hours per week and the number of weeks per year it’s in use can tell you the return on that investment versus having to handle those tasks manually.

The price of a new transplanter can be a barrier to entry into automation for a lot of growers, especially if doing it the way they’ve always done it (by hand) has always been successful. But success can also create a lot of overhead without you realizing it. Bob said truly knowing your costs opens the door to automation.

“Purchased plugs arrive already gapped and fully filled, so we can run them straight through an automated transplanter without stopping to fill holes,” he explained. “That saved us a lot of transplanting labor and freed up space for crops that earn more. Looking only at the price of seed versus the price of a plug would have told us the opposite.”

Ivan said his approach to investing in automation is to not just look at how much labor it will save, but what it can

actually do.

“I look at whether it improves through-put, consistency, quality and repeatability,” he explained. “In our plug-production work, for example, we’ve looked at sowing, tray handling, germination environments, irrigation and data collection as areas where automation can reduce variability and improve labor efficiency.”

Even if you’re part of a long-standing, multi-generational business that’s enjoyed success over many decades and experienced the same challenges, cost accounting doesn’t stay the same. You have to look at what the data is showing you now so that you can continue to evolve and innovate your operation for the future.

“You’re reading this article through the lens of preparing for 2027 even though it may be the same challenge that dad faced in 1989 or grandpa faced in 1978,” said Jim. “But we’re looking at it through our lens of the market we’re serving now, the supply chain we’re utilizing now. We’re taking timeless principles but applying them for today.”

And you should be looking over the data consistently. Dickman Farms checks inventory every day, labor every week and their P&L (profit & loss) every month. Metrolina also factors in weather patterns, chemistry performance and improvements in efficiencies, which constantly change. It makes it easier to notice the patterns before it’s too late to make any adjustments.

“My philosophy is simple: If you wait until the crop is finished to understand why it costs too much, you are already too late,” said Ivan. “You can’t manage what you don’t understand. Knowing our costs helps us make better decisions about pricing, crop selection, genetics, starting material, automation, labor, space and capital investment. More importantly, it tells us where horticulture can actually make a difference.”

“If you don’t know your costs, you’re setting prices by guessing or copying competitors, and you can’t tell which crops are making money and which are quietly losing it,” said Bob. “Margins in this industry are thin. Input, labor and energy costs keep going up, and a few bad calls can wipe out a season. Knowing your costs lets you price with confidence, make smart investments and say no to business that doesn’t pay.” **GT**