GROWERTALKS

Acres & Acres

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The Hidden Cost of Shrink

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There's a macabre, but humorous, saying: "It's not the fall that kills you, it's the sudden stop at the end."

For some of you, that describes Spring 2022.

If anything good came out of the sudden, painful end to last spring, it's that growers are playing it conservative, and short of a rainy May, there seems to be little risk of overproduction this spring. In fact, I'm hearing concerns that there won't be enough product to meet the potential demand.

Now, if you want to take conservative production planning to the next level and get really profitable, you need to get obsessive about shrink. What's shrink? Said Dr. Will Healy, Ball's now-retired guru of shrink (among his many talents), "In its simplest form, shrink is the difference between the inputs you start with and the plants you get paid for."

Like the Inuit's 53 different words for snow, we have lots of words for shrink, including "waste," "dump," "buffer," "poor quality," "spec," "garbage" and "dump pile"—which means we're all too familiar with the subject.

In 2009, Will conducted a study to see where shrink occurs and how much of it was happening in each market segment, from breeder to consumer. Will asked the question, "Out of 100 seeds or 100 unrooted cuttings, how many wind up as blooming plants in the garden?"

Not many: only 12 seeds—just 12%. URCs did better, at 48%, but that's still half that never got to bloom in the garden.

Here's the breakdown of where the shrink occurs (the first number is seed, the second is URCs):

- Breeder/producer (-26%/-17%)
- Distributor (-13%/-15%)
- Young plant production (-20%/-7%)
- Finished production (-12%/-3%)
- Retailer (-9%/-2%)

- Consumer (-8%/-8%)
- Alive in garden after two weeks (12%/48%)

At the time, Will wrote, “That could be depressing—or it could be viewed as a tremendous opportunity for our industry to reduce shrink and increase margins.”

Thankfully, we seemed to have taken advantage of the opportunity because in the ensuing 14 years some of the numbers have gotten better. Will just gave us this 2023 update:

- Breeder/producer (-20%/-20%)
- Distributor (-10%/-10%)
- Young plant production (-20%/-8%)
- Finished production (-8%/-3%)
- Retailer (-8%/-2%)
- Consumer (-8%/-8%)
- Alive in garden after two weeks (26%/49%)

Breeder/producers of seed have gotten six points better, while producers of URCs have gotten three points worse. Why? Will said for seed it’s better inventory management; for URCs, it’s the increase in varieties, which has made forecasting more challenging.

At the distributor level, both sides have gotten three to five points better—at least this year. Will said this number fluctuates each season due to germination rates, shipping losses, diseases and other factors that vary from year to year.

Young plant producers’ losses mostly reflect the buffers and speculation that they must have in their systems to guarantee enough inputs to meet orders. Will said they can reduce this somewhat by weeding out poor performers, low sellers and small batches.

Finished seed growers have made good gains mainly due to larger container sizes, which tend to create less shrink. Larger containers are also what give URCs an advantage over seed from this point on.

Next, retailers, where we haven’t seen any statistical change in the past 14 years. Perhaps we haven’t gotten the how-to-reduce-shrink message to them. However, Will said retail is a tough statistic to accurately determine, as there are so many kinds and sizes and geographies. But he’s confident that IGCs have half the losses of mass market garden centers.

Finally, our end consumer, who’s still not watering or planting about 8% of what she buys, regardless of plant form. But once the plant is planted? She’s doubled her success with seed! Will attributes that mostly to better genetics and larger containers.

Just as I was about to send this column on for final editing, Will sent me one more email.

“Lying in bed last night,” he wrote, “I remembered that I forgot the most important part of controlling shrink: ‘There’s money in that there dump pile!’”

Will reminds us that the above statistics are all in units. It’s the dollar value of that shrink that is important—and considerable! Say you’ve got 100,000 sq. ft. of growing space and 10% shrink. That’s 10,000 sq. ft. of empty benches! If you get three turns a season, that’s 30,000 sq. ft. of greenhouse that’s not generating any revenue—

crazy! That applies to retailers, too, except the value increases the higher up the chain you go.

That thought should inspire you to take a closer look at shrinking your shrink. Just doing a percent or two better will further improve your profitability.

Which is something that, weather permitting (because it's always about the weather), we might just see this spring. **GT**