

# **Analysis of Cut Foliage Businesses in Florida, 1996**

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## ABSTRACT

Information is presented on sales, production, costs, assets and liabilities, and efficiency indicators for 17 cut foliage businesses in Florida for the year of 1996. The average firm had annual sales of \$1.14 million (M), including \$650 thousand (K) for own-produced plants and \$494K in brokered product, total income of \$1.18M, net income of \$127K, used production area of 50 acres, and employed 30 fulltime equivalent (FTE) persons. Total assets — including plant inventory, land, equipment, buildings, supplies, cash on hand, and accounts receivable — averaged \$1.15M, while total liabilities were \$456K. Value produced per acre of growing area averaged \$13K and total sales per FTE of labor was \$38K. Total capital managed per FTE and per acre of growing space averaged \$46K and \$28K, respectively. Managed capital turnover was 0.82. Costs as a share of total sales averaged 6.1% for management/owners, 35.9% for employee labor, 13.7% for materials, 23.1% for finished products brokered, 4.2% for equipment/facilities, 8.3% for administrative overhead and 6.9% for capital. Net profit margin averaged 10.8%, rate of return on assets was 11.1%, and return on net worth was 18.4%. Similar information is presented for large-, medium- and small-sized firms, and highly profitable firms.

**KEY WORDS:** cut foliage, fernery, ornamental plant products, business analysis, sales, costs, returns, efficiency, Florida.

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# ANALYSIS OF CUT FOLIAGE BUSINESSES IN FLORIDA, 1996

Alan W. Hodges<sup>1</sup>, Loretta N. Satterthwaite<sup>2</sup> and John J. Haydu<sup>2</sup>

## INTRODUCTION

### The Cut Foliage Industry

The state of Florida is the largest producer of cultivated ornamental cut foliage products in the U.S., with total farmgate sales in 1996 of \$97.0 million, from 274 wholesale producers and 7,495 acres in production (NASS, 1997). Leatherleaf fern (*Rumohra adiantiformis*) is the most important cut foliage product in Florida, accounting for 69 percent of all cut foliage sales and 63 percent of production area. Many other cut foliage crops are produced in Florida, including several species of ornamental asparagus (*Asparagus* spp.), Japanese pittosporum (*Pittosporum tobira*), English ivy (*Hedera helix*) and aspidistra (*Aspidistra elatior*) (Stamps and Conover, 1986).

Growth of the industry in Florida mirrored that in the nation as a whole, with sales of ornamental plant products rapidly increasing in the 1970s and early 1980s, then experiencing slower but steady growth in the latter 1980s and 1990s. Sales of cut foliage by growers in Florida and other states over the period 1985–96 are shown in Figure 1. During this period of maturation and increasing competition, the ornamental horticulture industry experienced problems common to other parts of U.S. agriculture, including over-production, depressed prices, reduced profitability and an increased rate of business failure (Hodges, Haydu and van Blokland, 1996).

Actual operating costs and returns for fernery production have not been published, however, a budgeting approach was used by Smith, Taylor and Loadholtz (1988) to estimate total annual production and marketing costs for Florida producers at \$15,658 per acre or \$.75 per bunch of 25 fronds, based on an average yield of 20,800 bunches per acre.

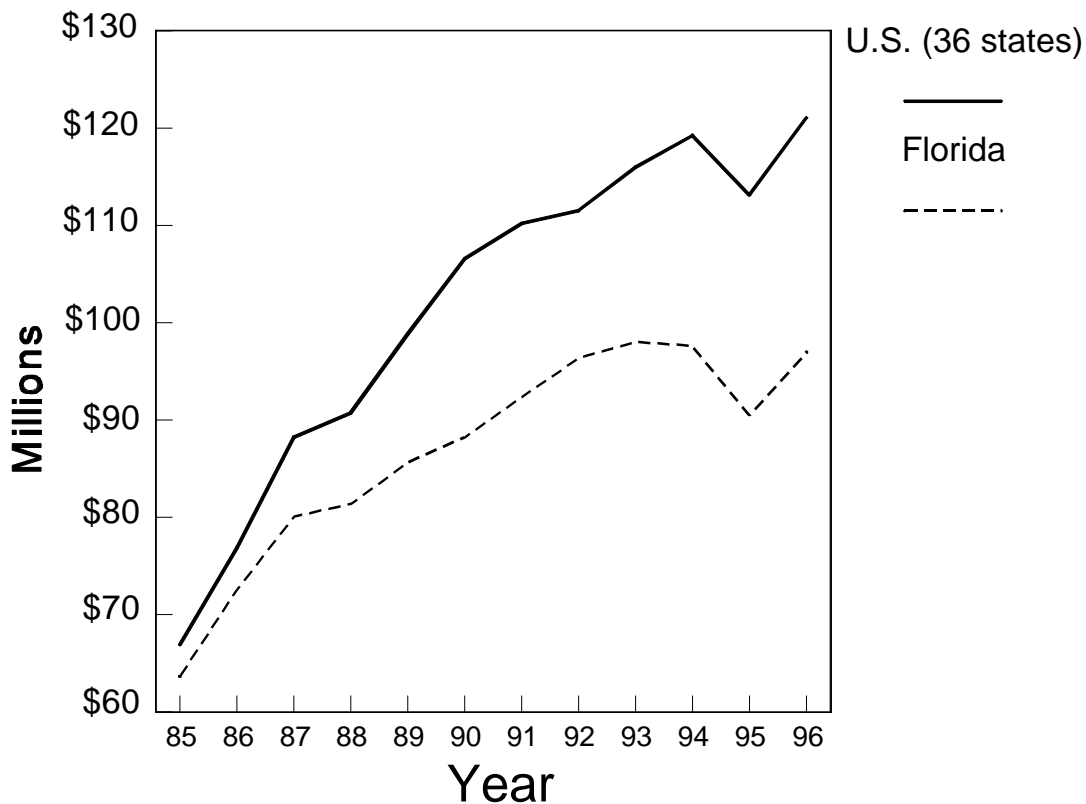
### The University of Florida Business Analysis Program

Information in this report was collected as part of the University of Florida's ongoing Business Analysis and Planning Program for the state's horticultural industries. Since the 1960s, this program has gathered and analyzed confidential production and accounting records from wholesale nurseries in Florida to compile industry average performance benchmarks, most recently reported by Hodges *et al.* (1997). In 1997, the business analysis program was extended to include the cut foliage industry for the first time. Firms that participated in this program, which was on a strictly voluntary basis, received a report with information similar to that presented in this paper.

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**Figure 1.** Sales of cut foliage by United States and Florida growers, 1985–96.

## PROCEDURES

**Information Collected and Reported.** Information for this report was collected from 17 wholesale cut foliage firms in Florida for the 1996 fiscal year. Firms were located in Volusia, Lake and Putnam counties. Information gathered included monthly sales, other income, expenses itemized in 26 categories, assets and liabilities, inventory values, value of leased property, production area, and labor hours or number of fulltime persons employed. Information was gathered through personal interviews with management, from company financial statements or income tax forms, and other production records, and then transcribed to a standard worksheet and entered into computer spreadsheets for analysis. Reported results represent weighted averages for firms in each group, so larger firms had greater influence on the results by virtue of their greater production or financial values.

**Accounting and Measurement Conventions.** A number of accounting conventions were adopted for this analysis in order to standardize the collection of information from different firms. Because most of these firms operate under a cash-based accounting system, sales

and expenses reflect collections and disbursements made during the period, respectively. Sales of finished products purchased from other firms or "brokered" were deducted from total sales to give own-product sales. All assets and liabilities were evaluated to represent a mid-year position by averaging the beginning and ending values for the period (Jan. 1, Dec. 31). Investments in buildings, site improvements, machinery and equipment were taken at book value, i.e. original cost less accumulated depreciation. Leased capital assets in land, buildings, and equipment were estimated at current market value. Investments in land were generally valued at the original purchase price, which did not reflect the current appreciated value of landholdings for many older firms. Depreciation expenses on fixed assets were taken from company depreciation schedules, which were computed according to the IRS Accelerated Cost Recovery System (ACRS) method (3, 5, or 7 years) for equipment, and straight-line or double declining balance methods (10 to 20 years) for buildings and improvements. Product inventories were accounted for on an accrual basis, where changes in inventory values were added to sales to calculate total value of production and total income. Inventories were also included among owned capital investments. In addition to book values or computed field values for inventories, plant inventories included an additional 25 percent of annual sales to adjust for the value of the established crop beds, which take 9 months to 1 year to begin producing and 2 to 3 years to reach full production. In cases where assets were personally owned by corporate officers and leased exclusively to the company, these assets were taken at book value rather than market value, and debts to corporate officers were not included among company liabilities when there was no intention to repay these debts. In some cases, lease payments for land were taken as compensation for management. For firms that did not have current records available on their growing area, the net usable growing space was estimated at 70 percent of the overall production area.

**Industry Groups Analyzed.** An attempt was made to gather a representative sample of the industry by collecting information from roughly equal numbers of firms in the following three acreage size classes for total farm area: less than 50 acres, 50 to 99 acres, and 100 or more acres. The sample is believed to represent firms with above-average management quality, by virtue of their willingness to participate in quality improvement programs such as this. Records were compiled and separately analyzed for three different groups of firms based upon total income, as summarized in Table 1: large firms were defined as having total annual sales of \$1 million or greater; medium firms had sales of \$500 to less than \$1 million; and small firms had sales of less than \$500 thousand. A subgroup of the 17 firms analyzed, designated as 'highly profitable' in the results, had a rate of return on net worth of at least 15 percent; there were five (5) firms in this subgroup and all size categories were represented.

**Table 1.** Florida cut foliage firms sampled, 1996.

Group	Definition	Number Firms
Large	Sales of \$1,000,000 or greater	6
Medium	Sales of \$500,000 to \$999,999	5
Small	Sales less than \$500,000	6
Total		17

# RESULTS

## Income and Value Produced

**Annual Sales.** Total annual sales averaged \$1.14 million (M) for all firms and ranged from \$2.40M for large firms to \$293 thousand (K) for small firms, as shown in Table 2. Sales of own products grown by firms averaged \$650K or 57% of total sales, while sales of finished products purchased for immediate resale ("brokered") were \$494K or 43% of total sales. Large and highly profitable firms had a somewhat higher percentage of brokered sales, while medium and small firms had a lower percentage.

**Table 2.** Income and value produced for Florida cut foliage businesses, 1996. All values in thousands dollars.

Income/Value Measure	All Firms Average	Large Firms Average	Medium Firms Average	Small Firms Average	Highly Profitable Firms Average
Own Produced Product Sales	650	1,223	498	204	810
Brokered Product Sales	494	1,178	157	90	1,054
Total Annual Sales	1,144	2,401	655	294	1,864
Change in Plant Inventory Value	8	11	1	10	6
Total Value of Production	658	1,234	499	214	816
Total Income	1,181	2,464	691	306	1,920

**Plant Inventory Change and Total Value Produced.** Changes in plant inventory values during 1996 (Jan. 1 to Dec. 31) were positive for all industry groups and averaged \$7.6K for all firms. Total value produced, a measure of productive effort calculated as the sum of own plant sales and change in plant inventory value, averaged \$658K for all firms and ranged from \$1.23M for large firms to \$214K for small firms.

**Total Income.** Total income was the sum of plant sales, changes in plant inventory values, and miscellaneous income from interest on accounts, rents, and other charges. It averaged \$1.18M for all firms and ranged from \$2.46M for large firms to \$306K for small firms.

**Monthly Sales.** The distribution of monthly sales is shown in Figure 2. Sales peaked during the spring months of March, April, May, followed by declining summertime sales, then a smaller second peak in October. Overall, nearly 31% of annual sales occurred during the peak 3-month period. Large firms had markedly greater seasonal sales. Presumably this pattern is related to the market for holiday floral crops during this period.



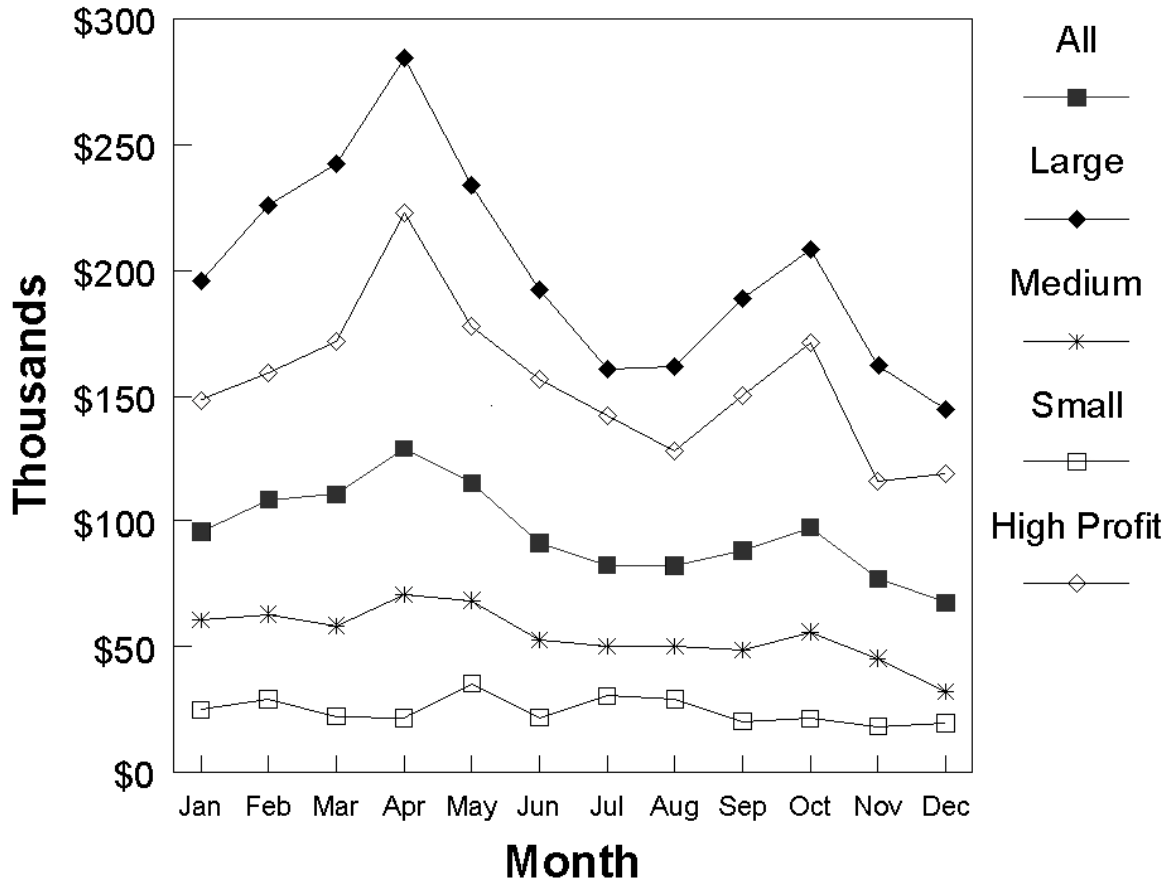


Figure 2. Monthly sales for Florida cut foliage businesses, 1996.

## Resource Use, and Productivity, Efficiency and Intensity Indicators

Productive resources of land, labor and capital used by the cut foliage industry are summarized in Table 3. Land and capital used represent averages of beginning and ending values for the year.

**Table 3.** Productive resources used by Florida cut foliage businesses, 1996.

Resource	Units	All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Total Farm Area	acres	168.3	305.7	121.5	69.9	188.1
Net Usable Production Area*		50.5	94.3	30.7	23.2	76.4
Number persons employed	FTE**	30.2	65.7	15.5	7.0	47.8
Total Owned Capital	\$K	1,147	1,988	935	482	1,547
Capital Leased (Land)		245	276	62	366	418
Total Capital Managed***		1,392	2,264	997	848	1,965

\* Net usable production area excludes roads within fernery.

\*\* Full-time equivalent person represents 2,080 hours per year.

\*\*\* Capital managed is capital owned, both equity and debt capital, plus capital leased.

**Land.** The total farm area of surveyed cut foliage growers averaged 168 acres (Table 3). The net usable area for production of cut foliage averaged 50 acres for all firms and ranged from 94 acres for large firms to 23 acres for small firms. These figures represent growing beds and fields only; area for aisles, driveways and other service areas were excluded.

**Labor.** Labor resources used were measured in terms of fulltime equivalent (FTE) persons employed, including production, administrative, sales, and management personnel. In most cases, this was calculated by dividing total labor hours by 2,080 hours per worker-year (52 weeks at 40 hours per week). The number of full-time equivalent persons employed averaged 30 for all firms and ranged from 66 for large firms to 7 for small firms.

**Capital Managed.** Both equity and debt capital and leased assets in land, buildings, equipment and working capital represented capital resources used for operations. Owned capital in buildings, improvements and equipment were assessed at book value, while leased assets were taken at market value. Total capital managed averaged \$1.39M for all firms and ranged from \$2.26M for large firms to \$848K for small firms. Land represented the largest share of capital managed (43%), followed by growing plants in inventory (27%) and buildings/installations (15%).

**Value Produced per Acre.** The productivity of cut foliage operation space was measured by the value of production (annual sales of own product plus inventory change) per acre of growing space. Value produced per acre averaged \$13.0K per acre, and ranged from \$16.3K for medium firms to \$9.2K for small firms (Table 4). Highly profitable firms produced \$10.7K per acre. Space productivity is affected by production area layout and space utilization efficiency (renovation), plant growth rates and survival, and inventory turnover.

**Capital Managed per Acre.** The intensity of capital use in relation to production space was measured as the ratio of capital managed to growing area (acres). Capital managed per acre of growing area averaged \$27.6K for all firms, and ranged from \$24.0K for large firms to \$36.6K for small firms. Highly profitable firms had slightly below-average capital managed per acre.

**Sales and Value Produced per Worker.** Labor productivity was measured in terms of sales and value produced per fulltime equivalent (FTE) worker, or per 2,080 labor hours per year. For all firms, labor productivity averaged \$21.8K per FTE, or \$10.48 per hour worked. This value ranged from \$18.8K per FTE for large firms to \$32.1K per FTE for medium firms. Variations in labor productivity may result from differences in investment for labor-saving equipment, labor management practices, and practices affecting crop turnover.

**Growing Area Managed per Worker.** The intensity of labor use was evaluated in terms of production area (acres) per FTE person. Growing space per FTE averaged 1.67 acres for all firms, and ranged from 1.44 acres for large firms to 3.31 acres for small firms.

**Capital Managed per Worker.** The intensity of capital use in relation to labor was measured as the ratio of managed capital (owned plus leased) to number of persons employed. This measure averaged \$46.0K per FTE for all firms, and ranged from \$34.5K for large firms to \$121.1K for small firms. The substantially lower capital-labor intensity for large firms may reflect economies of scale in cut foliage production, i.e. the greater efficiencies of resource use that can be realized for larger-sized operations through specialization of tasks and better utilization of technology.

**Managed Capital Turnover.** This indicator expresses the ratio of annual sales to total managed capital. Managed capital turnover averaged 0.82 for all firms, and ranged from 1.06 for large firms to 0.35 for small firms. In general, high capital turnover is desirable, indicating greater sales per dollar of investment. Low turnover rates may result from low labor or space productivity or excessive capital investment. The capital turnover for these cut foliage firms was somewhat higher than that for ornamental plant nurseries in Florida (0.55, Hodges et al, 1997).

**Table 4.** Resource productivity, efficiency and use intensity indicators for Florida cut foliage businesses, 1996.

Indicator		Units	All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Per Acre Production Area	Value of Production	\$K	13.0	13.1	16.3	9.2	10.7
	Capital Managed	\$K	27.6	24.0	32.5	36.6	25.7
	FTE Persons Employed	FTE	0.6	0.7	0.5	0.3	0.6
Per FTE Persons Employed	Total Sales	\$K	37.9	36.6	42.2	42.0	39.0
	Sales Own Plants	\$K	21.5	18.6	32.0	29.2	17.0
	Value of Production	\$K	21.8	18.8	32.1	30.5	17.1
	Capital Managed	\$K	46.0	34.5	64.2	121.1	41.1
	Production Area	Acres	1.7	1.4	2.0	3.3	1.6
Managed Capital Turnover*			0.82	1.06	0.66	0.35	0.95

\* Ratio of total sales to managed capital

## Expenses and Cost Efficiency

Operating expenses were grouped into the following categories: employees' wages and benefits, materials, finished products purchased for resale, facility and equipment, administrative overhead, capital, and management/owner compensation. The first three expense categories were considered direct production costs, while the other categories were considered indirect expenses. Expenses for income taxes or debt principal payments were not included. Costs are itemized in Table 5 and summarized by major category in Figure 3.

**Employee Expenses** included wages, salaries, sales commissions, payroll taxes (social security), workman's insurance, health insurance, bonuses and other benefits paid. This was by far the largest expense category for these businesses, averaging \$411K for all firms and ranging from \$861K for large firms to \$85K for small firms (Table 5). Employee expenses represented 37% of total costs (Figure 3), which is a somewhat greater percentage than for ornamental plant nurseries (34%, Hodges et al, 1997), indicating a greater labor intensity.

**Materials Expenses** included plants and seeds, fuel for production and cold protection, fertilizer and lime, herbicides, fungicides, insecticides, other chemicals, packing and shipping materials, and other production supplies such as tags and small tools. These items are "direct" expenses or "cost of goods sold". Expenses for materials averaged \$157K for all firms and ranged from \$327K for large firms to \$53K for small firms. Chemicals (herbicides, fungicides, insecticides, other) represented \$53K in expenses or 34% of total material expenses.

**Facility and Equipment Expenses** included repairs and maintenance for production and packing facilities and equipment operating costs such as fuel and lubrication. Expenses averaged \$48K for all firms and ranged from \$83K for large firms to \$18K for small firms.

**Administrative Overhead Expenses** included travel and entertainment, property insurance, telephone, electric power, advertising, property taxes and business licenses, rent and other cash expenses such as professional services, trade association memberships, office expenses and miscellaneous. Expenses averaged \$95K for all firms and ranged from \$189K for large firms to \$28K for small firms.

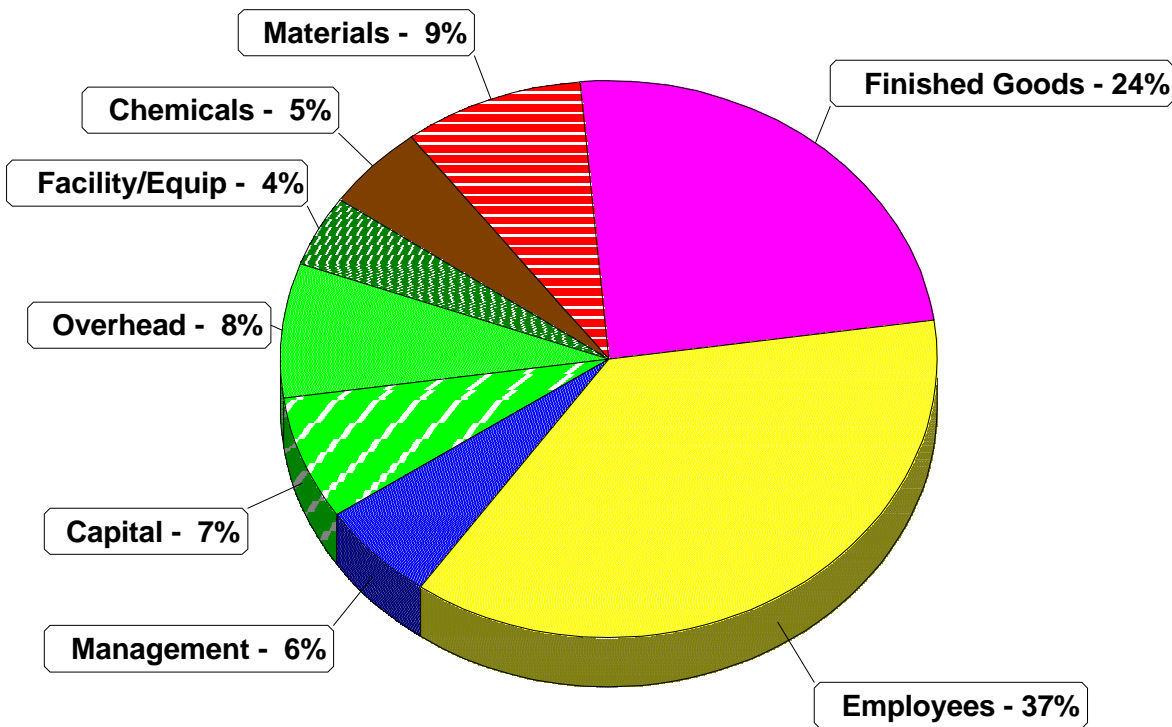
**Capital Costs** included interest on borrowed capital in the form of mortgages, promissory notes and charge accounts, and depreciation on fixed assets. Total capital costs averaged \$78K for all firms and ranged from \$139K for large firms to \$39K for small firms. Depreciation expenses averaged \$46K for all firms.

**Management/Owner Compensation** represented salaries and benefits paid to owners and top management. These expenses averaged \$69K for all firms and ranged from \$118K for large firms to \$37K for small firms.

**Total Costs** averaged \$1.12M for all firms and ranged from \$2.33M for large firms to \$313K for small firms.

**Table 5.** Operating expenses for Florida cut foliage businesses, 1996. All values in dollars.

Cost Category/Item		All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Employees	Salaries and wages	353,240	738,803	226,645	73,173	455,023
	Taxes and benefits	58,007	122,640	35,281	12,311	85,560
	Sub-Total	411,247	861,443	261,926	85,484	540,583
Materials	Plants & seeds	5,433	13,445	1,844	411	363
	Heating fuel	8,146	17,319	3,722	2,661	9,635
	Fertilizers & lime	20,728	35,840	15,304	10,135	34,653
	Herbicides	4,771	10,306	1,786	1,724	7,545
	Fungicides	23,175	50,983	7,546	8,393	36,610
	Insecticides	17,550	38,528	6,056	6,151	27,716
	Nematicides	1,457	2,857	928	498	2,303
	Other Chemicals	5,812	13,640	2,549	704	8,696
	Sub-Total Chemicals	52,766	116,314	18,864	17,468	82,870
	Packing supplies	50,377	112,972	25,105	8,843	77,033
	Other production supplies	19,338	30,772	12,159	13,887	32,690
	Sub-Total All Materials	156,788	326,661	76,999	53,406	237,244
Finished Product Purchased for Resale		264,315	609,125	105,619	51,752	553,929
<b>DIRECT COSTS TOTAL</b>		<b>832,350</b>	<b>1,797,229</b>	<b>444,544</b>	<b>190,643</b>	<b>1,331,756</b>
Facility & Equipment	Facility repairs & maintenance	22,366	31,395	26,408	9,967	41,777
	Equipment operation	25,676	51,157	16,400	7,925	29,054
	Sub-Total	48,042	82,552	42,809	17,892	70,831
Overhead	Travel	4,152	10,673	592	597	3,238
	Insurance	8,962	18,500	6,297	1,644	10,057
	Telephone	9,247	17,087	7,565	2,808	9,441
	Electricity	8,967	17,675	5,662	3,013	9,999
	Taxes & licenses	8,983	16,867	7,261	2,535	11,705
	Advertising	2,616	4,754	2,733	379	2,637
	Rent-land/buildings	15,159	36,435	4,873	2,454	16,377
	Other cash costs	36,950	66,910	27,731	14,672	26,944
Sub-Total	95,035	188,900	62,715	28,102	90,398	
Capital	Depreciation	45,850	73,493	32,151	29,623	55,134
	Interest costs	32,531	65,810	20,368	9,388	38,748
	Sub-Total	78,381	139,303	52,519	39,012	93,882
Management/Owner Compensation		69,391	117,607	50,360	37,033	75,402
<b>INDIRECT COSTS TOTAL</b>		<b>290,848</b>	<b>528,362</b>	<b>208,402</b>	<b>122,039</b>	<b>330,513</b>
<b>ALL COSTS TOTAL</b>		<b>1,123,198</b>	<b>2,325,591</b>	<b>652,947</b>	<b>312,682</b>	<b>1,662,269</b>



**Figure 3.** Expenses for Florida cut foliage businesses, 1996.

**Cost per Acre.** The cost per unit of growing space is a useful measure for comparing cost efficiencies. Total costs per acre of growing area averaged \$17.0K for all firms and varied from \$18.2K for large firms to \$11.3K for small firms (Table 6). Highly profitable firms averaged lower costs per acre (\$14.5K) than all firms and than both large and medium firms (\$17.8K).

**Cost As a Share of Sales.** Analysis of expenses in relation to sales is one of the most reliable measures of cost efficiency in many industries. For all firms, costs as a percentage of sales averaged 35.9% for employee labor, 13.7% for materials, 23.1% for finished products brokered, 4.2% for facility and equipment, 8.3% for overhead, 6.9% for capital and 6.1% for management. Employee wages and benefits represented the largest expense as a share of sales and were greater for large firms (35.9%) and for medium firms (40.0%) than for small firms (29.1%) presumably because much of the labor was provided by the owners in small firms. Labor costs were strongly related to profitability; highly profitable firms had below-average labor costs of 29.0% of sales. Materials costs varied within a rather narrow range from 11.7% for medium firms to 18.2% for small firms, and highly profitable firms had below-average material costs of 12.7%. Administrative overhead costs varied within an even

narrower range — from 7.9% for large firms to 9.6% for both medium and small firms — and were substantially below-average (4.8%) for highly profitable firms. Capital costs ranged from 5.8% for large firms to 13.3% for small firms, reflecting significant economies of scale, and highly profitable operations had capital costs averaging 5.0%. Management costs ranged from 4.9% for large firms to 12.6% for small firms, not only due to economies of scale but also the fact that managers of small firms often provided a large share of the labor.

**Table 6.** Cost efficiency indicators for Florida cut foliage businesses, 1996.

Indicator		All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Costs as Percentage of Total Sales	Employee Labor	36%	36%	40%	29%	29%
	Materials	14%	14%	12%	18%	13%
	Finished Plants	23%	25%	16%	18%	30%
	Facility & Equipment	4%	3%	7%	6%	4%
	Overhead	8%	8%	10%	10%	5%
	Capital Costs	7%	6%	8%	13%	5%
	Management/Owner Compensation	6%	5%	8%	13%	4%
	Total Costs	98%	97%	100%	106%	89%
Costs per Acre of Production Area (thousands \$)	Employee Labor	8.1	9.1	8.5	3.7	7.1
	Materials	3.1	3.5	2.5	2.3	3.1
	Facility & Equipment	1.0	0.9	1.4	0.8	0.9
	Overhead	1.9	2.0	2.0	1.2	1.2
	Capital Costs	1.6	1.5	1.7	1.7	1.2
	Management/Owner Compensation	1.3	1.2	1.6	1.6	1.0

## Net Returns and Profitability

**Net Income.** This measure is simply the difference between total income and total costs except management's (owners') compensation. Net firm income averaged \$127K for all firms and ranged from \$256K for large firms to \$31K for small firms (Table 7). Net income was \$333K for highly profitable firms.

**Net Margin.** Net margin is the ratio between net income and total income or, in other words, the share of total income that is net income. Net margin averaged 10.8% for all firms and was remarkably consistent across firm size groups, ranging from 10.0% for small firms to 12.8% for medium-sized firms. Highly profitable firms had net margins averaging 17.4%.

**Return on Assets.** This measure was calculated by dividing net income by the value of total assets. Return on assets averaged 11.1% percent for all firms and ranged from 12.9% for large firms to 6.3% for small firms. Highly profitable firms had an average return on assets of 21.5%.

**Return on Net Worth.** This is the most comprehensive measure of profitability and takes into account the financial risk embodied in the leverage factor (see below) and is comparable to annualized yields on stocks, bonds, or savings deposits. It was calculated as the ratio of net income to net worth. Return on net worth averaged 18.4% for all firms and ranged from 21.8% for large firms to 11.7% for small firms. Highly profitable firms averaged 34.5% rate of return on net worth.

**Table 7.** Net returns and profitability for Florida cut foliage businesses, 1996.

Measure	All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Net Income: total income less total costs except management's compensation (thousands \$)	127	256	88	31	333
Net Margin: ratio of net income to total income	10.8%	10.4%	12.8%	10.0%	17.4%
Return on Assets: ratio of net income to total assets	11.1%	12.9%	9.5%	6.3%	21.5%
Return on Net Worth: ratio of net income to net worth	18.4%	21.8%	14.1%	11.7%	34.5%



## Balance Sheet and Financial Ratios

Assets and liabilities were taken to represent the mid-year financial position of firms, calculated as an average of beginning and ending balance sheet values, as summarized in Table 8.

**Assets.** Total assets averaged \$1.15M for all firms and ranged from \$1.99M for large firms to \$482K for small firms (Table 8). Current assets, including cash on hand, accounts receivable, and plant and supply inventories, averaged \$534K for all firms and ranged from \$998K for large firms to \$168K for small firms. Long-term assets, including investments in buildings, machinery, land and accumulated depreciation, averaged \$613K for all firms and ranged from \$991K for large firms to \$314K for small firms.

**Liabilities.** Total liabilities averaged \$456K for all firms and ranged from \$814K for large firms to \$222K for small firms. Current liabilities, including accounts payable and other liabilities payable within one year, averaged \$79K for all firms and ranged from \$196K for large firms to \$14K for small firms. Long-term liabilities, including notes payable and mortgages, averaged \$377K for all firms and ranged from \$618K for large firms to \$207K for small firms.

**Net Worth.** Net worth or equity is the difference between total assets and total liabilities and represents the value of the owners' share of assets. Net worth averaged \$691K for all firms and ranged from \$1.17M for large firms to \$260K for small firms.

**Table 8.** Assets, liabilities and net worth for Florida cut foliage businesses, 1996.  
All values in thousands dollars.

		All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Current Assets	Cash on Hand	35	54	46	7	36
	Accounts receivable	108	230	63	25	170
	Plant inventory value	375	684	300	128	513
	Supply inventory value	16	30	9	8	24
	Total CURRENT Assets	534	998	417	168	744
Long Term Assets*	Land	348	546	320	174	447
	Machinery & Equipment	192	344	151	75	299
	Buildings & Fixtures	520	899	431	216	670
	Accumulated Depreciation	(448)	(799)	(383)	(151)	(611)
	Total LONG TERM Assets	613	991	518	314	803
<b>TOTAL ASSETS</b>		<b>1,147</b>	<b>1,988</b>	<b>935</b>	<b>482</b>	<b>1,547</b>
Liabilities	Current Liabilities	79	196	16	14	162
	Long Term Liabilities	377	618	293	207	418
	Total LIABILITIES	456	814	309	222	580
<b>NET WORTH</b>		<b>691</b>	<b>1,174</b>	<b>626</b>	<b>260</b>	<b>967</b>

\* Long term assets valued at cost

**Leverage.** This measure expresses the ratio between total liabilities and net worth, and is an indicator of long-term solvency. Higher values indicate greater risk, with potential for greater returns and greater losses. The leverage ratio averaged 0.66 for all firms and ranged from 0.49 for medium firms to 0.85 for small firms (Table 9). Generally, leverage factors below 1.0 are considered to represent a very safe financial position. The impact of financial leverage on profitability can be understood as a multiplier: leverage multiplied by the rate of return to capital assets equals the rate of return on net worth.

**Quick Ratio.** The quick ratio is a measure of a firm's ability to meet short-term debts. It was calculated by dividing cash and accounts receivable by current liabilities. Cash and accounts receivable are the most liquid of current assets, which are usually available on short notice, but inventories are not included in this measure because they may not be immediately salable. A value for this ratio below 1.0 would indicate an illiquid position. The quick ratio averaged 1.82 for all firms and ranged from 1.45 for large firms to 6.55 for medium firms. Highly profitable firms had significantly lower quick ratios (1.27).

**Table 9.** Financial ratios for Florida cut foliage businesses, 1996.

Ratio	All Firms	Large Firms	Medium Firms	Small Firms	Highly Profitable Firms
Current Ratio (Cash on Hand/Current Liabilities)	0.44	0.28	2.76	0.49	0.22
Quick Ratio (Cash & Accounts Receivable/Current Liabilities)	1.82	1.45	6.55	2.24	1.27
Asset/Debt Ratio (Total Assets/Total Liabilities)	2.51	2.44	3.02	2.18	2.67
Current to Long Term Liabilities	0.21	0.32	0.06	0.07	0.39
Accounts Receivable/Sales	0.17	0.19	0.13	0.12	0.21
Asset Depletion (Current Value/Original Cost Long Term Assets)	0.58	0.55	0.57	0.68	0.57
Asset Turnover Ratio (Sales/Total Assets)	1.03	1.24	0.74	0.64	1.24
Leverage Factor (Total Liabilities/Net Worth)	0.66	0.69	0.49	0.85	0.60

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