User Guide to the Internet-Based System for Financial Benchmark Analysis of Wholesale Ornamental Plant Nursery Operations

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This document describes an internet-based system for financial benchmark analysis of wholesale nursery operations. The system was developed to assist wholesale nursery growers and allied professionals to evaluate the performance of a business in relation to industry norms. Benchmark analysis involves development of key performance indicators that reflect basic practices in a specific type of business and region. This enables business owners and managers to identify the strengths and weaknesses of a company, in order to establish goals for improvement, or to capitalize on its advantages. Ideally, benchmarks should be representative of industry-leading firms as a model for emulation, but may also include statistical information on variability of benchmark measures.

The internet-based system, available at http://hortbusiness.ifas.ufl.edu/hortnba, consists of security encrypted data entry forms, an analytical report generator, a historical database of firm records, and a website user interface.

The analytical approach used in this system follows from the University of Florida’s longstanding Nursery Business Analysis Program. Industry benchmark values were developed from financial statements and production records collected from grower firms in Florida between 1990 and 1998, and augmented with new data submitted to the internet-based system since 2004. Benchmark measures provided in the internet-based system include indicators for productivity, profitability, financial solvency and liquidity. Reports generated by the system consist of a series of tables and charts that report the following information for up to three industry groups or individual firm records for comparison:

1. Scope of Business Operations: annual plant sales, value of production, production area, number of fulltime equivalent employees, owned and leased capital.
2. Income Statement: nursery sales, miscellaneous income, total income, expenses for six major categories (labor, supplies, equipment/facilities, overhead, capital, management), and 32 detailed items, gross income and net income.
3. Monthly Sales as a percentage of total annual sales (charted).
5. Productivity and Efficiency Indicators: sales and value produced per square foot and per acre growing space, per fulltime equivalent employee, capital managed per acre and per employee.
6. Financial Ratios: profitability (gross margin, net margin, return on assets, return on equity), turnover (inventory, asset, managed capital), liquidity (cash on hand/current liabilities, current
ratio, quick ratio, accounts receivable / sales, average collection period), and solvency (assets/liabilities, leverage, current value /original cost of long term assets).

7. Cost Analysis: costs per square foot, costs per unit sales, and cost per unit value produced in major expense categories (labor, supplies, facility & equipment, overhead, capital, management).

The system offers a menu of standard reports that summarize benchmark information in the database, selected by location (state, county), nursery commodity or production system, firm size, profitability, and year. Currently, nursery commodities or production systems represented in the database include greenhouse tropical foliage, shadehouse tropical foliage (South Florida), container-grown woody ornamentals, field-grown woody ornamentals, flowering plants, cut foliage (ferneries), plugs or liners, and herbaceous perennials. Other nursery commodities or production systems may be added from time to time, as requested by users. Within each commodity, information is also available for subgroups of large, small, and highly profitable firms. Large firms are defined as those having annual sales of two million dollars or greater, while small firms had sales of less than $250,000. Highly profitable firms had a rate of return on assets of 15 percent or greater. Time series reports allow users to view reports for any given industry group or firm in three separate periods. The system requires a minimum of five (5) valid records in the database to view averages for a selected combination of attributes (commodity/production system, firm size, location, year), in order to protect the confidentiality of user records.

Users of the system may also create an account with their company profile and select a username and password to enable access to the system for entry of information and customized analyses. A security encryption system prevents unauthorized access to confidential information. Users enter their financial and other data into forms and submit the information for analysis. Any number of individual firm-year records may be entered and saved by a user. Information required for the analysis includes:

- **Income:** annual plant sales, monthly sales (optional), sales of finished product purchased and resold (brokered), other miscellaneous business income (rents, service charges, gain on sales of assets, etc.)
- **Assets and Liabilities:** original cost and accumulated depreciation on buildings/ installations and machinery/equipment; land, plant inventory and production supplies (year beginning and ending values), average cash on hand, accounts receivables, current and long-term liabilities.
- **Leased Assets (if applicable):** land, buildings, equipment, stated at current market value.
- **Nursery Area:** total nursery area (acres), net usable growing space (square feet).
- **Labor Work Time:** payroll hours or fulltime employee equivalents for all hourly and non-hourly employees, including clerical and managerial.
• Operating expenses: management salaries, employee wages and salaries, commissions, health insurance, payroll taxes, other benefits, plants, containers, growing media, fertilizer, agrichemicals, packaging, heating fuel, other supplies, facility repairs & maintenance, equipment operations, insurance, electricity, communications, taxes, advertising, rent, interest, depreciation, bank charges, postage/freight, dues/subscriptions, professional services, offices supplies, waste removal, miscellaneous other.

Nursery industry professionals can use benchmark analysis as a guide for important decisions such as business expansions, financing, marketing strategies, operations planning, and product selection. Business analysis also supports the rigorous evaluation of profitability for individual products. Conducting a business analysis repeatedly over time enables managers to see trends in performance. Some outcomes that are supported by business analysis include increased business profitability, reducing the risk of business failure, expanded opportunities for market development and firm growth, better control of costs, greater availability of capital financing, greater employee productivity and job satisfaction, greater physical efficiency, enhanced management professionalism, and better product mix selection. Some common problems and opportunities for improvement revealed by business analysis include:

• Low output, (below average sales, area),
• Overcapitalization or undercapitalization (capital managed per acre, per employee),
• Poor pricing or low value of production (low value per square foot),
• Slow crop growth (low inventory turnover),
• High costs for labor, materials or overhead due to low productivity, waste or overuse (cost per unit value produced, per unit area, or as share of total budget),
• Poor cash flow (low cash assets, high accounts receivable, low inventory turnover),
• Imbalanced debt structure (ratio of current to long term liabilities).

The developers of this tool would appreciate any feedback from users regarding the features of the system, or suggestions for improvement.