

Costs of Production

The significance of managing production costs has become heightened by increased competition in the woody ornamental industry, with falling prices for products forcing producers to find new ways to cut costs. Many managers do not clearly understand that costs include not only cash outlays, but also non-cash costs and allowances such as depreciation and interest, which must be covered for the business to remain viable over the long run.

Costs by Expense Category

Costs were grouped into the following categories: management's compensation, wages and salaries, production supplies, other production costs, administrative and overhead, and non-cash costs. Table 2 summarizes dollar amounts for each cost category, and Figures 9a and 9b give percentage shares of the total for each category in order to compare costs among groups differing in average size. Further details on all itemized expenses are given in Appendix Tables 5a and 5b.

Management's Compensation or Time Value-- averaged \$43.8 thousand for container nurseries, and \$59.1 thousand for field firms (Table 2). These amounts represented 8.9% and 12.4% of total costs, respectively. Large container firms compensated management an average of \$75.5 thousand (8.0%), and large field firms \$130.7 thousand (15.4%). Average compensation to management in small firms was \$24.1 thousand (15.4%) for container nurseries, and \$27.1 thousand (12.9%) for field firms.

Employees' wages and payroll costs is one of the largest cost categories for the woody ornamental industry. In addition to wages and salaries, this category included benefits, social security, workman's compensation insurance, health insurance, bonuses, and other payroll costs. Average labor expenses were 32.8% of total costs (\$162.5 thousand) for container nurseries and 26.0% (\$123.9 thousand) for field firms (Table 2). Large container firms spent a much greater percentage of total costs on employees (34.8%) than did large field firms (22.8%). Small firms of both types spent a smaller share of expenses on employees (24.8% and 20.8%, respectively) because a lesser share of work was performed by hired labor.

Production supplies--included expenses for plants and seeds, containers, peat and soil, fertilizer and lime, pesticides and chemicals, and other production supplies. Expenses for supplies represented 21.5% of

total costs (\$106.3 thousand) for container firms, and 17.6% (\$84.0 thousand) for field firms. Large container nurseries spent 21.8% (\$205.8 thousand) of total costs on supplies and large field firms spent 23.7% (\$200.7 thousand). Small nurseries spent a smaller share of total expenses on supplies: 18.6% (\$29.1 thousand) for container firms and 14.4% (\$30.1 thousand) for field nurseries. The largest single item within this category was plants and seeds, representing 6.7% of total costs for container firms and 8.6% for field nurseries.

Other production costs--were facility repairs/maintenance and equipment operating costs. These costs averaged 4.6% (\$22.6 thousand) of total costs for container nurseries and 4.9% (\$23.3 thousand) for field firms. Large container firms spent 4.4% (\$41.3 thousand) and small nurseries spent 2.5% (\$3.9 thousand). Large and small field firms spent 5.6% (\$47.7 thousand) and 3.4% (\$7.0 thousand), respectively, of total costs on this category.

Administrative and overhead are those expenses that usually cannot be assigned to any particular production activity, yet must be covered in order to remain in business. This category included travel, property insurance, telephone, electric power, advertising, property taxes, rent, and other cash expenses. Administrative and overhead expenses averaged 9.9% (\$49.1 thousand) of total costs for container nurseries and 7.3% (\$34.9 thousand) for field firms. Larger firms had a slightly lower share of overhead costs, with 9.3% (\$88.0 thousand) for container firms and 6.7% (\$57.0 thousand) for field firms, indicating some economy of scale. Small firms had above average overhead costs: 11.6% (\$18.2 thousand) for container, 9.6% (\$50.3 thousand) for field nurseries.