

Cash Costs Per Dollar of Sales

This is a short-term measure of profitability and financial solvency relating only current cash expenses with current income (sales). Cash costs averaged 93% of sales for container firms and 95% for field firms. Large firms had cash costs of 93% and 88%, respectively. Small firms of both types had the serious problem of cash costs exceeding sales by 21% for container nurseries and 44% for field firms. This means that these firms were not able to meet current operating expenses from cashflow generated by sales. Most profitable firms had cash costs 84% and 94% of sales, respectively.

Income Summary

In Table 3, income and costs are reorganized to derive net income in a manner more like traditional accounting practices, without the allowance for interest cost on capital.

Total gain is the total value of plant sales, changes in plant and supply inventory values, and miscellaneous income. In addition to the plant sales and inventory growth revenue discussed previously, miscellaneous income averaging \$6.3 thousand for container firms and \$8.3 thousand for field firms produced a total gain of \$401.9 thousand and \$477.8 thousand, respectively (Table 3).

Cost deductions are the same as total costs discussed previously, except for omission of the operator's salary and allowance for interest on capital, so that these costs can be explicitly recognized. Total deductions averaged \$359.8 thousand for container nurseries and \$280.3 thousand for field firms. Total deductions are subtracted from total gain to give net nursery income.

Net nursery income is the total annual return for the firm, before income taxes, compensation to management and interest on capital. Average net nursery income was \$42.1 thousand for container nurseries and \$197.5 thousand for field firms (Table 3). Large container firms had below average net incomes of \$26.3 thousand and large field firms had \$579.8 thousand. Small firms had average net incomes of \$38.5 thousand for container nurseries and \$49.8 thousand for field nurseries. The most profitable firms had net incomes of \$151.2 thousand and \$509.4 thousand, respectively.

Return to Capital

Net nursery income may be apportioned between returns to management and returns on capital investment in order to evaluate the economic efficiency of these resources. Return to capital is the part of net nursery income attributable to the capital investment, calculated by subtracting the compensation to management from net nursery income. Return to capital averaged \$138.5 thousand for field nurseries. Return to capital was negative for container nurseries overall (-\$1.8 thousand) and large container firms (-\$49.2 thousand). This negative return to capital simply means that all net income was taken by management rather than paid as dividends to stockholders or kept as retained earnings. Return to capital was \$449.1 thousand for large field firms, \$22.7 thousand for small field nurseries, and \$14.4 thousand for small container firms.

Net profit margin is the ratio between return to capital and total gain. As shown in Figure 12, field firms had a profit margin of 29.0%. Since container firms had a negative return to capital, net profit margin was also negative (0.4%). The most profitable firms had net profit margins of 28.9% for container nurseries and 41.4% for field firms. Thus, field nurseries showed greater average profit not only in absolute dollars but as a share of business volume.

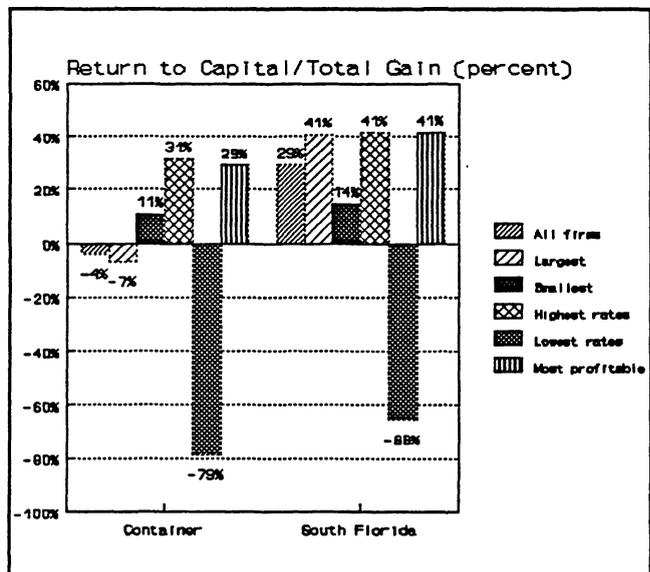


Figure 12--Net profit margin. Ratio of return to capital and to total gain.