Pricing Specialty Cuts

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Introduction

Setting prices can be a difficult task even for experienced firms. If prices are set too low, potential profit may be lost or, worse, product may be sold for less than the cost of production. Conversely, setting prices too high may result in lost sales and dumped product. Not surprisingly, prices that growers receive are often too low rather than too high. A few signs of too low of prices are:

- Gross profits are getting smaller on the same or rising sales volume.
- Net profit is decreasing, especially if sales are increasing.
- Your prices are less than your competitors’.
- You get very few complaints about price or customers buy without asking price, haggling over price, or ask what is/is not included in the price.
- Prices have not been changed over a long time, especially if expenses have risen.

Prices can be based either on 1) your firm’s cost-of-production or 2) on the market. With the cost-of-production method prices are based on expenses, labor, and desired profit. With the market method prices are set according to what other companies charge or what the market will bear. While the cost-of-production method is best for long-term health of a firm, most firms use a combination of both methods. For example, with some species you may not be able to charge the calculated prices and have to rely on the market price. In such cases, you must decide whether or not to grow the species.

Record Keeping

The first step in cost accounting is to keep records. Considering the extreme time constraints of the typical grower during the production season, record keeping should be as convenient and
simple as possible. If possible, an employee should be designated as the record keeper, allowing the owner/grower to focus on other tasks.

1. **Cultural** - planting dates, pest problems, spacing, and other cultural procedures.
2. **Chemical** - chemical applications, date of applications, rates used, applicator's name. Contact your local cooperative Extension Service or chemical supplier for more information on chemical application rules.
3. **Environmental** - weather conditions, temperature.
4. **Production** - include notes on quality as well as quantity.
5. **Financial** - all expenses and sales figures.
6. **Postharvest** - notes and trials on vase life of each species (cultivar) or on the durability and color retention of dried materials.

### Calculating Stem and Bunch Costs

The following is one system for helping you to determine what you need to charge for your cuts. Use the enclosed worksheets (Worksheet 1 for annuals, Worksheet 2 for perennials or woody plants) or adapt the system as needed for your operation. The system is intended only to give you a rough idea of what you need to charge; contact your county extension office to learn about other methods which may give you more in depth information.

The following system focuses on two types of expenses: **Allocated costs** and **unallocated costs**. Allocated costs are those which you can specifically attribute to a particular crop species. Unallocated costs include all other costs that are not directly attributed to a specific crop, including most or all of the expenses listed in Table 1.

For the beginning producer, the only allocated expense may be seed or plug costs. As the producer becomes more experienced and improves recording keeping, more expenses can be allocated to specific crops. This will allow a more accurate comparison among crops and allow you to determine which ones are most profitable. For example, lisianthus is more labor intensive than direct seeded larkspur and determining the amount of labor needed for each species will allow you to attribute the labor costs to each species. Thus, the allocated costs for lisianthus and larkspur would then reflect the difference in labor — allowing you to set more accurate bunch prices.

1. **Allocated costs**: costs which vary directly with the crop being grown, which mainly include plant costs, but also any other expense directly attributable to a specific crop.
2. Dividing unallocated costs among crops: (this section is only done once for all crops)

Unallocated costs: costs which are not directly attributable to specific crops, which generally include any or all of the expenses listed in Table 1.

Total size of useable production area (ft²)

Total unallocated costs ($) = size of production area (ft²) = cost for each ft² of useable production area ($/ft²)

3. Estimated production per species or cultivar:

Annuals (Worksheet 1): total number of stems
Perennials (Worksheet 2): total number of stems over life of crop—number of years in production
Woody plants (Worksheet 2): total number of stems over life of crop—number of years in production

Use actual production records of useable stems (3a) or estimate production from literature and multiply by 0.65 to take into account loss (3b).

If your production records are based on number of bunches produced, replace "stems" with "bunches" to calculate bunch price.

4. Calculations for specific crops:

Area (ft²) used for each crop x unallocated cost per ft² ($/ft²) = portion of unallocated costs for each crop species ($)

Total unallocated costs ($) + total allocated costs ($) = total expenses for each crop species ($)

Expenses for each crop ($) = total stem number = $/stem. This is a 'break even' point. A 'profit' will be made if the stem is sold for greater than this point.

Note: If owner's salary and all expenses are not included in unallocated costs and the cuts are sold at or below calculated $/stem, then the owner is working for free and no money will be available to invest in the business.

Acknowledgments

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Table 1: Possible expenses for a cut flower business.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>wages, benefits, workmans compensation, payroll taxes, etc.</td>
</tr>
<tr>
<td>Hired help</td>
<td>Owner's salary</td>
</tr>
<tr>
<td>Plant materials, such as seed, plugs, liners, bulbs, corms, etc.</td>
<td></td>
</tr>
<tr>
<td>General production materials, including fertilizer, stakes, netting, pesticides, container media, flats, etc.</td>
<td></td>
</tr>
<tr>
<td>Upkeep and repair of equipment, buildings, vehicles, etc.</td>
<td></td>
</tr>
<tr>
<td>Equipment, including tractors, rototillers, attachments, hand tools, etc.</td>
<td></td>
</tr>
<tr>
<td>Depreciation for buildings and equipment</td>
<td></td>
</tr>
<tr>
<td>Utilities, including electricity, gas or propane, water, sewer, garbage collection, etc.</td>
<td></td>
</tr>
<tr>
<td>Office expenses, including telephone, paper, envelopes, stamps, paper clips, etc.</td>
<td></td>
</tr>
<tr>
<td>Accounting fees, lawyer fees</td>
<td></td>
</tr>
<tr>
<td>Land expenses</td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td></td>
</tr>
<tr>
<td>Insurance, including property, life, disability, and vehicle</td>
<td></td>
</tr>
<tr>
<td>Shipping expenses, including vehicle, mail, packaging, etc.</td>
<td></td>
</tr>
<tr>
<td>Interest on business loans</td>
<td></td>
</tr>
<tr>
<td>Marketing expenses, including advertisements, business cards, etc.</td>
<td></td>
</tr>
<tr>
<td>Misc. expenses, including association fees, publications, etc.</td>
<td></td>
</tr>
</tbody>
</table>
Worksheet 1: Calculating Stem and Bunch Costs for Annuals

1. __________
   Allocated costs per crop ($)

2. __________
   Total unallocated costs (for one year)

   __________
   Total size of useable production area (ft²)

   Unallocated costs ($) \( \div \) Area (ft²) \( \times \) $/ft²

3. To estimate stem production, use either 3a for crops on which you already have production records or 3b for new crops.

3a. __________
    Total number of stems per crop

3b. __________
    Estimated number of stems per plant or ft²

   __________
   Number of plants or ft²

   Stems/ft² \( \times \) Plants or ft² \( \times \) .65 = __________
   Stems/yr

4. __________
   Area (ft²) \( \div \) Unallocated cost ($/ft²) = Total unall. costs ($)

   __________
   Allocated costs ($) \( \div \) Total crop costs ($)

   __________
   Stems \( \times \) $/stem = __________
   $/stem

   __________
   Stems/bunch \( \times \) $/bunch = __________
   $/bunch

   __________
   Sell price ($) \( \div \) $/bunch = __________
   Profit ($)
Worksheet 2: Calculating Stem and Bunch Costs for Perennials or Woody Plants

1. ___________ Allocated costs per crop
   ___________ Number of years from planting to removal
   ___________ Allocated costs ($) 
   Year $/year

2. ___________ Total unallocated costs (for one year)
   ___________ Total size of useable production area (ft²)
   ___________ Unallocated costs ($) 
   Area (ft²) $/ft²

3. To estimate stem production, use either 3a for crops on which you already have production records or 3b for new crops.

   3a. ___________ Total number of stems per crop
       ___________ Number of years from planting to removal
       ___________ Stems
       Year Stems/year

   3b. ___________ Estimated number of stems per plant or ft² (for one year)
       ___________ Number of plants or ft²
       ___________ Stems/ft²
       Plants or ft² x 0.5 = Stems/year
4. \[ \text{Area (Ft}^2) \times \text{Unallocated cost ($/Ft}^2) = \text{Total unallocated costs ($) }\]
\[
\text{Total unallocated costs ($) } + \text{Allocated costs ($) = Total crop costs ($) }\]
\[
\text{Total crop costs ($) } / \text{Stems} = \text{Stems/bunch }\]
\[
\text{Stems/bunch } \times \text{Sell price ($) } = \text{Profit ($) }\]

**Example:**

**Worksheet 1: Calculating Stem and Bunch Costs for Annuals**

1. **Allocated costs per crop ($)**

2. **Total unallocated costs ($ for one year)**

   \[
   \text{Total unallocated costs ($) } - \text{Allocated costs ($) = Total unallocated costs ($) }\]

3. To estimate your production, use either 1a for crops in which you already have production records or 1b for new crops.

3a. **Total number of stems per crop**

3b. **Estimated number of stems per plant**

   \[ \text{Number of plants} \times \text{Stems/plant} = \text{Total number of stems} \]

4. **Area (Ft}^2) \times \text{Unallocated cost ($/Ft}^2) = \text{Total unallocated costs ($) }\]

   \[ \text{Total unallocated costs ($) } - \text{Allocated costs ($) = Total crop costs ($) }\]

   \[ \text{Total crop costs ($) } / \text{Stems} = \text{Stems/bunch }\]

   \[ \text{Stems/bunch } \times \text{Sell price ($) } = \text{Profit ($) }\]