

# Pricing Specialty Cuts

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## Introduction

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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

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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

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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. There are other methods for estimating prices based on labor costs, number of stems produced, etc. The following system is intended only to give you a rough idea of what you need to charge; contact your county extension office or fellow growers 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 (ft<sup>2</sup>)
  - Total unallocated costs (\$) - size of production area (ft<sup>2</sup>) = cost for each ft<sup>2</sup> of useable production area (\$/ft<sup>2</sup>)
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 (ft<sup>2</sup>) used for each crop x unallocated cost per ft<sup>2</sup> (\$/ft<sup>2</sup>) = 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.

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**Table 1.** Possible expenses for a cut flower business.

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**Labor** (wages, benefits, workmans compensation, payroll taxes, etc.)

-Hired help

-Owner's salary

**Plant materials**, such as seed plugs, liners, bulbs, corms, etc.

**General production materials**, including fertilizer, stakes, netting, pesticides, container media, flats, etc.

**Upkeep and repair** of equipment, buildings, vehicles, etc.

**Equipment**, including tractors, rototillers, attachments, hand tools, etc.

**Depreciation** for buildings and equipment

**Utilities**, including electricity, gas or propane, water, sewer, garbage collection, etc.

**Office expenses**, including telephone, paper, envelopes, stamps, etc.

**Accountant fees**, lawyer fees

**Land Expenses**

-Mortgage

-Property Taxes

**Insurance**, including property, life, disability, and vehicle.

**Shipping expenses**, including vehicle, mail, packaging, etc.

**Interest** on business loans

**Marketing expenses**, including advertisements, business cards, etc.

**Misc. expenses**, including association fees, publications, etc.

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# 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 (ft<sup>2</sup>)

$$\frac{\text{Unallocated costs (\$)}}{\text{Area (ft}^2\text{)}} \div \frac{\text{Area (ft}^2\text{)}}{\text{Area (ft}^2\text{)}} = \frac{\text{Area (ft}^2\text{)}}{\text{\$/ft}^2}$$

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 ft<sup>2</sup>

\_\_\_\_\_ Number of plants or ft<sup>2</sup>

$$\frac{\text{Stems/plant or ft}^2}{\text{Plants or ft}^2} \times \frac{\text{Plants or ft}^2}{\text{Plants or ft}^2} \times .65 = \frac{\text{Stems/yr}}{\text{Stems/yr}}$$

4. \_\_\_\_\_  $\times$  \_\_\_\_\_ = \_\_\_\_\_  
 Area (ft<sup>2</sup>) Unallocated costs (\$ft<sup>2</sup>) Total unallocated costs (\$)

\_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Total unalloc. costs (\$) Allocated costs (\$) Total crop cost (\$)

\_\_\_\_\_  $\div$  \_\_\_\_\_ = \_\_\_\_\_  
 Total crop cost (\$) Stems \$/stem

\_\_\_\_\_  $\times$  \_\_\_\_\_ = \_\_\_\_\_  
 \$/stem Stems/bunch \$/bunch

\_\_\_\_\_ - \_\_\_\_\_ = \_\_\_\_\_  
 Sell price (\$) \$/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

$$\frac{\text{Allocated costs (\$)}}{\text{Years}} = \text{\$/year}$$

2. \_\_\_\_\_ Total unallocated costs (for one year)  
 \_\_\_\_\_ Total size of useable production area (ft<sup>2</sup>)

$$\frac{\text{Unallocated costs (\$)}}{\text{Area (ft}^2\text{)}} = \text{\$/ft}^2$$

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

$$\frac{\text{Stems}}{\text{Years}} = \text{Sems/year}$$

3b. \_\_\_\_\_ Estimated number of stems/plant or ft<sup>2</sup> (for one year)  
 \_\_\_\_\_ Number of plants or ft<sup>2</sup>

$$\frac{\text{Stems/plant or ft}^2}{\text{Plants or ft}^2} \times .65 = \text{Sems/yr}$$

4. \_\_\_\_\_ Area (ft<sup>2</sup>)  
 \_\_\_\_\_ Unallocated costs (\$ft<sup>2</sup>) = \_\_\_\_\_ Total unallocated costs (\$)

$$\text{Total unalloc. costs (\$)} + \text{Allocated costs (\$)} = \text{Total crop cost (\$)}$$

$$\frac{\text{Total crop cost (\$)}}{\text{Sems}} = \text{\$/stem}$$

$$\frac{\text{\$/stem}}{\text{S tems/bunch}} = \text{\$/bunch}$$

$$\text{Sell price (\$)} - \text{\$/bunch} = \text{Profit (\$)}$$

## Example

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### 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 (ft<sup>2</sup>)

$$\frac{\text{Unallocated costs (\$)}}{\text{Area (ft}^2\text{)}} \div \frac{\text{Area (ft}^2\text{)}}{\text{Area (ft}^2\text{)}} = \frac{\text{\$/ft}^2\text{}}{\text{\$/ft}^2}$$

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 ft<sup>2</sup>

\_\_\_\_\_ Number of plants or ft<sup>2</sup>

$$\frac{\text{Stems/plant or ft}^2}{\text{Stems/plant or ft}^2} \times \frac{\text{Plants or ft}^2}{\text{Plants or ft}^2} \times .65 = \frac{\text{Stems/yr}}{\text{Stems/yr}}$$

4. \_\_\_\_\_  $\times$  \_\_\_\_\_ = \_\_\_\_\_  
Area (ft<sup>2</sup>) Unallocated costs (\\$/ft<sup>2</sup>) Total unallocated costs (\$)

$$\frac{\text{Total unalloc. costs (\$)}}{\text{Total unalloc. costs (\$)}} + \frac{\text{Allocated costs (\$)}}{\text{Allocated costs (\$)}} = \frac{\text{Total crop cost (\$)}}{\text{Total crop cost (\$)}}$$

$$\frac{\text{Total crop cost (\$)}}{\text{Total crop cost (\$)}} \div \frac{\text{Stems}}{\text{Stems}} = \frac{\text{\$/stem}}{\text{\$/stem}}$$

$$\frac{\text{\$/stem}}{\text{\$/stem}} \times \frac{\text{Stems/bunch}}{\text{Stems/bunch}} = \frac{\text{\$/bunch}}{\text{\$/bunch}}$$

$$\frac{\text{Sell price (\$)}}{\text{Sell price (\$)}} - \frac{\text{\$/bunch}}{\text{\$/bunch}} = \frac{\text{Profit (\$)}}{\text{Profit (\$)}}$$

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