

Finding the best value

Nursery buyers should consider the off-the-truck cost of plant material, as well as the quality received

**Delivered Value =
Landed Price + Intrinsic Advantages**

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– **Mike Pezzillo, McHutchison Inc.**

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– **Sid Miles, Miles Nursery**

By Ann Murphy

What if an app could tell you where you could find the best plant value? It would let you compare the value provided by different suppliers so you could make the best purchasing decisions for your company.

That is the essence of using landed price and understanding delivered value.

"Landed price, regardless of origin or shipping costs, is the cost of goods sold," said Mike Pezzillo, nursery manager for McHutchison Inc. "The delivered value of your product is what determines

whether your product will sell well or not and your level of profit."

Most wholesale buyers do not buy strictly on price; price is just one of several factors used to assess a product's overall value. Other value-added factors include service provided by the nursery, plant quality and vigor, convenience and cost of delivery, and how quickly a plant can be sold for a good price.

Everyone is in business to make a profit. In the world of selling plants, accurately factoring the cost of the landed price of those plants provides important information for setting the right selling price. Prices set too low miss out on additional profits, something everyone is looking to maximize these days; too high and missed sales may be the result.

Landed price vs. percentage of invoice

Landed price is the price of the plant plus the cost of shipping the plant to its destination. (It may also include tags, royalties, packaging and other costs.) Often, buyers calculate

shipping costs as a percentage of the total invoice. Unless the truck is filled with one type and size of plant — an unlikely scenario — the percentage calculation either under- or overestimates landed price for a given plant. Buyers may find it to be a more convenient calculation, but knowing a reasonably accurate landed price can help the buyer make better purchasing and pricing decisions.

"Regardless of what fills the truck, the freight price is the same," Pezzillo said. "A truckload of precious jewelry will cost the same to ship 3,000 miles across the country as does a truckload of copy paper. A \$5,000 freight bill on a load of paper valued at \$15,000 translates into a freight percentage of 33 percent. That same \$5,000 freight bill on a load of jewelry valued at \$400,000 is only 1.25 percent. The same goes for plants. Plant values, sizes and weights are all over the board, much like the paper and jewelry example. *Prunus laurocerasus* and *Thuja* are often the victims of the freight percentage mon-

ster because of their low product price.”

Every plant size and variety takes up a different amount of space or weight on a truck. The volume each plant occupies translates into freight units. This volume concept is essential to understanding landed price and ultimately the value of a purchase.

Eason Horticultural Resources Inc. offers a plant locator to help customers make educated decisions about the delivered value of plants. “Our system lets the salesperson and customer compare the same plant in different sizes and from each of our suppliers,” said Bob Maudlin, nursery and foliage manager for Eason. “To help customers make their buying decisions, we have an on-screen comparison so the customer will know exactly how each size compares in cost and the amount of space it takes up on the truck.

“By comparing the actual cost of the plant from different suppliers and adding the difference in freight, we give the customer the tools they need to make good buying decisions.”

Calculating landed price

A landed price calculation may sound complicated, but it is fairly straightforward. In fact, calculating the volume a plant occupies on a truck is very similar to the methodology growers use to calculate how much product will fit on a truck. Certain factors, however, can make landed price on a per plant basis challenging to calculate, at least until the buyer is billed for freight. Here’s why:

- There is no standard freight unit; each grower or broker develops his or her own calculation.
- Freight costs fluctuate throughout the year depending on availability and mode of transportation.
- Some growers have not calculated the freight units of their plants or are not set up to provide the information to customers.

If the grower or broker is arranging shipping and knows cost of freight, they can provide the buyer with an esti-

For the Grower:

Weight and volume for various plants — and, therefore, freight units — will differ by grower. Additionally, freight units are affected by a grower’s ability to nestle plants during loading, the water saturation of the soil or media and whether a root ball is dug by hand or machine.

Even with these variables, calculating freight unit averages is a powerful tool for estimating load footage and adding value to customer relationships. (Contact Ann Murphy, OAN’s director of marketing, at amurphy@oan.org or 503-682-5089 for a six-step freight unit calculation.)

It’s always a good idea to help the customer maximize their loads. If you are sharing a truck, use only your allocation of footage and not an inch more. Help your customer maximize the number of plants that can fit in the volume of space and tell your workers the maximum space on the truck allocated for plants from your nursery.

“It’s more important than ever for West Coast growers to work together to make sure each and every truck loads to its capacity either volumetrically or by weight,” said Bob Maudlin, nursery buyer for Eason Horticultural Resources, Inc. “Otherwise, the growing advantage Oregon has is diminished.”

mated landed price and the buyer can price the plant before they are billed for freight or know the actual delivered price. If the buyer is arranging shipping, then they can calculate landed price based on freight units provided by the grower.

Larger growers such as A & R Spada Farms, who have an onsite scale, can generate what the nursery calls an item freight cost report after each truck is loaded and scaled. The report factors plant weight compared to the overall truck cost, thus providing an accurate freight cost for each item. To illustrate, here’s a landed price example:

Approximately 43,000 pounds of material can be loaded in a trailer, which generally equates to 8,000 units (8,000 one gallon containers weighing

approximately five pounds is the maximum load for a 53-foot trailer). Let’s assume the truck is heading to Chicago and costs \$4,000. The freight cost for each unit is \$.50 (the cost of the truck divided by 8,000 units).

Knowing landed price eliminates pricing guesswork. Factor in the intrinsic value of the plant and buyers can easily calculate target margin and price the plant for sale.

Recognizing value

“Delivered value is an important concept for a successful garden center or grower that purchases plants to grow on,” said Ken McVicker, sales manager for Van Essen Nursery Co. in Lebanon, Ore. “Proof is when a superior plant comes in and sells quickly because it looked good and was priced right to make margin. For a grower, a high value plant is one that has strong roots, good form and grows quickly.”

In the words of Sid Miles of Miles Nursery, “It all boils down to quality. Quality is marketability.”

According to Pezzillo, it is easy to accept something because it’s locally available at \$100 and the freight is only \$17 (and is most likely quoted as 17 percent).

“Oregon delivers value time and time again,” he said. “The same item might be \$60 from an Oregon nursery and the freight might be \$20 (about 33 percent, in this example). It’s up to the buyer to do the math and decide which is the better delivered value.”

Freight is a sensitive topic with buyers, especially when Oregon growers ship plants east of the Rockies.

“The perception is that freight out of Oregon is too high,” Maudlin said. “Yes, freight is high, but the fact is, freight is going up everywhere. In many instances, landed price from Oregon is equal to or less than from regional suppliers. Factor in Oregon’s quality, and the bottom line is that delivered value helps the buyer determine who they should buy from and what size plant will be the best value.” ©