

THE FINANCE OF AUTOMATION

An overview of financial issues to consider when purchasing automation.

By Bridget White

The one concern most growers express about automation is cost. These systems are not cheap, and when the plan is to pay cash for everything, which it most often is in our industry, cost can become an issue. Future issues of "The Complete Automation Guide" will go into more detail about many of the details associated with cost, such as return on investment, financing options and getting a loan, but we wanted to start out with a financial overview in this inaugural issue. Specifically, we will be addressing the two major concerns when assessing affordability: return on investment and cash flow.

RETURN ON INVESTMENT

Payback should be the first thing considered in any purchase, and automation is no exception. It seems logical that buying a machine to replace several people and their benefits would save you money, but when you actually look at the numbers...well...it will leave you speechless.

According to figures from Mike Porter, Nexus Corporation, Northglenn, Colo., the payback period for some pieces of automation can be as little as one year. Of course, the return will change depending on variables such as usage, cost of equipment, labor costs, etc., but a generic example will put everyone in the proverbial ballpark.

With a standard transplanter suitable for most medium-sized or larger growers who are producing some specialty products, we can assume that the machine capacity is 8,000 plants per hour. If that same work were being done by hand, the labor would cost you approximately \$10 per hour (let's forget about benefits for now just to make things simpler), and the person would be able to transplant approximately 1,000 plants per hour. After doing the math, the costing comes out at \$.0079 per plant less when you use a transplanter. That leaves us with a payback of two years if you transplant 3,773,200 plants per year and one year if you transplant 7,546,400 plants per year.

Just to put this into context, if you worked the transplanter through two shifts per day for six weeks, you would have processed enough plants to achieve the two-year payback. Examples using similar equipment, such as fillers or pot dispensers, would show similar paybacks. Certainly a two-year payback is within the reach of most growers and is considered a rapid rate of return on any capital equipment expenditure.

CASH FLOW

If the above payback seems attractive, but cash flow is a concern, there are more financing options available to growers now than ever before, and lenders are becoming more comfortable working with our industry, making financing a powerful and available tool.

Will Bean, account representative with Pinnacle Capital, Tacoma, Wash., specializes in lending to the horticulture industry. "Fifteen years ago the availability of repayment structures besides the traditional monthly payment was limited. Today funding sources, especially those who specialize in lending to

the horticultural industry, commonly offer both seasonal and annual repayment plans. Many of these structures include step payments or skip payments. Different types of ending are also being offered, from traditional loan options to different types of equipment financing and leasing options."

CASE STUDY

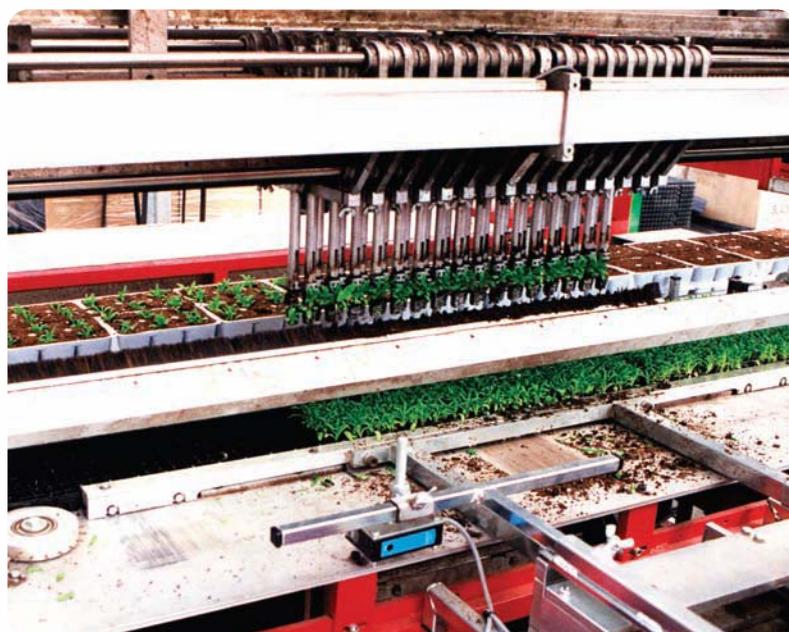
Even for larger nurseries, financing automation is sometimes a better option than purchasing outright, at least that's what David Brown of Sweetwater Nursery, Santa Rosa, Calif., thinks.

Brown financed a TTEA transplanter with Pinnacle Capital several years ago on a lease-to-buy plan. "What we have is a five-year lease with an option to buy at the end for \$1," explained Brown. "It was a really easy process. Basically, I signed the papers and got the machine. We've financed a couple of pieces of equipment this way."

The lease option Brown is referring to is a fairly standard lease-to-buy program. You pay some money down and a set amount every month or year and then either pay the balance at the end of the lease or turn the equipment back over. In this case, Brown has created a lease program whereby the balance at the end of the lease is \$1, after which, the equipment is yours.

According to Brown, the lease option was better for his business because it did not tie up all of his capital on a single piece of equipment. Instead, he was able to spread out the cost of the machine over several years and continue to operate with ease.

"At that time, we probably could have afforded to buy the machine outright, but I think it's better this way. Over the five years of the lease the machine will pay itself off. We started switching container sizes, and now we can't do everything with that machine, so our payback is going to be longer. If we hadn't switched, that machine would probably have paid itself off in one year." — **Bridget White**





A transplanter (pictured left) or a full-time employee with benefits. Do you know which one is cheaper?

Additionally, distributors and manufacturers have started teaming with financing companies. Now, if you make a call to any of the top distributors or manufacturers they will be able to refer you to a financial partner that often can secure financing within hours. According to Bean, for companies that have been in business at least two years, a simple one-page form is all that is needed.

The benefit of leasing is obviously improved cash flow and immediate access to equipment. "The value of the equipment lays in the use not the ownership," explains Bean. "Growers need to understand that true economic efficiencies can only be achieved by an investment in equipment. What some growers don't realize is that this equipment investment does not necessarily equate to a capital investment of the same amount. With financing you can realize a positive cash flow immediately. As an example, finance a flat filler for a monthly payment of \$300. The savings you incur that first month, in most cases, would exceed the monthly payment, bringing profit to the bottom line."

Relying again on figures provided by Porter, we can take another look at the numbers for the same transplanter if it were leased over a five-year period. The assumptions about the inputs would be the same, namely that the transplanter's capacity is

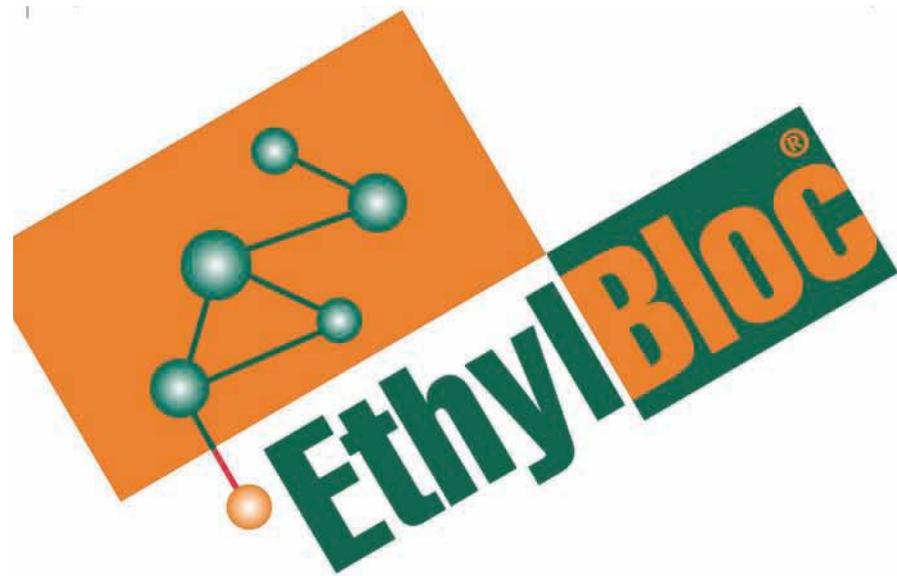
8,000 plants per hour, and if the same work were being done by hand the labor would cost approximately \$10 per hour (setting aside benefits), with the person being able to transplant approximately 1,000 plants per hour. Most leases for this type of equipment would be approximately \$15,000 per year, and it could be arranged for payments only during busy season, from May to September. Adjusting for a 10-percent purchase option, you would still save approximately \$30,000 per year, based on transplanting 3,773,200 plants, by leasing a transplanter instead of doing the work manually.

If you can save this kind of money with very little up-front costs, it almost seems crazy not to invest in automation, but I don't want to minimize the fact that this is a large capital expenditure and a binding legal agreement. However, by working with your attorney, financial institution and manufacturer/distributor, you should be able to get the equipment that is right for you and your financial situation. **GPN**

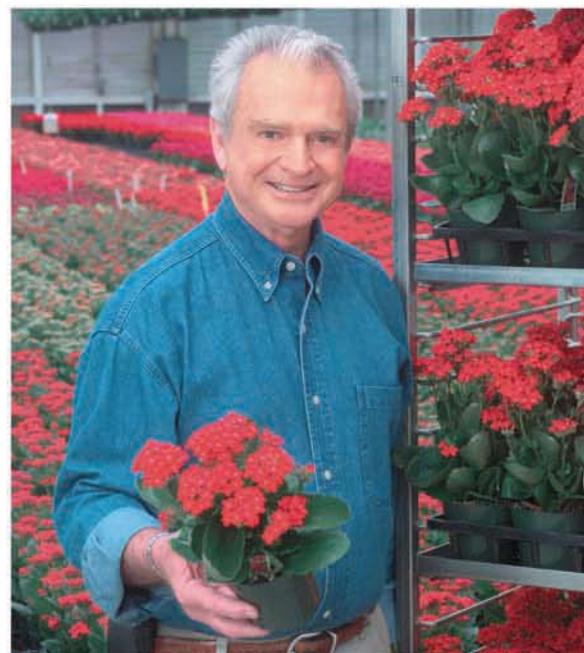
Bridget White is editorial director of GPN. She can be reached by phone at (847) 391-1004 or E-mail at bwhite@sgcmail.com.

LEARNMORE

For more information related to this article, go to www.gpnmag.com/lm.cfm/gp040503



Survival of the freshest



"My motto has always been quality. With EthylBloc®, I deliver quality with increased longevity."

Norm White, Owner,
 White's Nursery

These industry leaders don't just survive, they thrive with EthylBloc®. It reduces credits and shrink, extends shelf life and helps cut flowers and potted plants stay fresher longer for higher profitability. It's survival of the freshest. *Why aren't you using EthylBloc®?*

The Care and Handling Experts.

www.floralife.com

EthylBloc is a registered trademark of Rohm and Haas Company.



Floralife, inc.

Walterboro, SC 29488
 Phone: 800/323-3689
 Info@floralife.com

Write in 701