



Starting a Wholesale Nursery Business ¹

D. L. Ingram, J. T. Midcap, and D. L. Gunter²

Introduction

Are you thinking about starting a woody ornamental nursery? The future of the nursery industry in Florida appears good at this time. However, there is an element of risk involved in almost every phase of the industry. In-depth planning is essential for a successful business. Lack of planning is a primary reason for failure. Some of the questions you should ask before beginning a nursery include:

- How do I start?
- How much capital investment is needed?
- Where will the investment capital be obtained?
- What will be the legal structure of the business?
- What plants can I produce and sell?
- What will be the production schedule?
- What are the cash flow and profit considerations?
- What is the best location, layout and equipment for the nursery?

- What are the regulatory considerations?

This publication should establish a framework for proper planning by the potential nursery owner. Other questions could have been discussed but the ones presented should provide the proper direction for thought and planning.

How Do I Start?

Several approaches exist for entering the nursery business. One alternative is to purchase an established nursery. Advantages of this approach include starting with established market channels, production schedules and possibly, experienced personnel. The major disadvantage is the large amount of capital needed to purchase an established nursery.

A second alternative is to start from scratch. The size and intensity of the operation determine the amount of capital needed. A large volume nursery requires a full-time manager and considerable capital outlay. A small volume nursery can be a part-time job and requires less capital investment. A third approach is to expand or redirect an existing farm operation. A farmer seeking an alternative crop has much of the necessary equipment and requires less fixed capital investment.

1. This document is Circular 409 A, one of a series of the Department of Environmental Horticulture, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida. First published May 1980. Reviewed March 2000. Please visit the EDIS Web site at <http://edis.ifas.ufl.edu>.

2. D. L. Ingram, Former Ornamental Horticulture Specialist, Extension Rural Development, J. T. Midcap, Former Extension Woody Ornamental Specialist, and D. L. Gunter, Former Extension Production Economist, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, 32611.

How Much Capital Investment Is Needed?

A 1978 survey of nurseries producing woody landscape plants revealed that the capital investment in land, machinery, buildings, and wells was about \$0.15 per square foot in production. Additional working capital was invested in plants and production supplies. Capital invested in these two items was about \$0.76 per square foot in production. The amount of capital you will need depends upon the size nursery, present facilities, level of mechanization and types of plants you plan to produce. A detailed list of capital investment items along with estimates of annual production capital needs and projected returns should be developed before you approach lenders.

Where Will Capital Be Obtained?

The intended use of a loan and the time length of the loan determines in part the appropriate agricultural credit sources. The common loan classification is by time length. A short-term loan is for one year or less, an intermediate loan is for one to seven years, and a long-term loan is more than seven years in duration. Not all lending agencies make all types of loans. The type of loans a lender makes depends in part upon source of funds and legal restrictions.

Commercial banks make all three loan types, however, long-term loans are usually less available. Banks make both production and family living loans. Availability of loans from banks depends in part on alternative investment opportunities for the bank, size of the bank, and reserve requirements. Farm loan policy, interest rate, and application procedures will vary among banks.

Production Credit Associations (PCA), part of the Farm Credit System, make only short and intermediate-term loans. PCA's make both production and family living loans. However, the borrower must purchase PCA stock equal to between 5 and 10 percent of the loan. The source of PCA's loan funds is primarily loans from the Federal Intermediate Credit Bank and from business earnings.

Federal Land Bank Association (FLBA), another branch of the Farm Credit System, makes real estate improvement loans that are secured by mortgages. The

FLBA is restricted to lending an amount less than the appraised value of the real estate. Borrowers are required to purchase stock in the association equal to 7 percent of the loan.

Farmers Home Administration (FmHA), an agency of the U. S. Department of Agriculture, makes all three types of loans. FmHA loans are made only to farmers who are unable to obtain credit from other agencies. Generally a farmer is defined as one whose primary source of income is from the farm, or someone who possesses the training and/or experience to start a farm as a primary source of income. FmHA borrowers usually receive the benefits of financial counsel and a closely supervised loan. FmHA will also insure or guarantee loans to farmers from other lenders.

Merchants and dealers usually only make credit available for purchases of production materials and equipment. These loans are short-term except in the case of intermediate-term loans for equipment. The availability of credit from this source is dependent upon the amount of retained earnings in the business, or the borrowing capacity of the merchants and dealers. They usually make cash sales.

Insurance companies also provide real estate loans and real estate improvement loans. These loans must be secured with real estate mortgages. Loan funds are primarily from premium payments on policies and retained earnings. Insurance companies usually give priority consideration to loan applicants who are policy holders. These companies also consider yield and security of loans.

Other sources of credit, such as individuals, family members, and small loan companies, make some agricultural-related loans.

What Will Be The Legal Structure of The Business?

The best legal structure for a nursery business can only be determined on an individual basis. Three basic types of legal structure for a nursery business are listed below:

1. Sole proprietorships are the easiest to begin and end. They have the most legal flexibility and need no government approval. Business profits are

taxed as personal income and the owner is liable for debts and taxes.

2. Partnerships are the simplest for two or more people to start and terminate. Partners are taxed separately, and are personally liable for debts and taxes (except limited partners).
3. Corporations are the most formal of structures and must operate under State laws. Corporations have a continuous and separate legal life from individuals involved in the corporation. Their activity and name are restricted by a charter. Business profits are taxed separately from executives and owners earnings, and only the company is liable for debts and taxes.

What Plants Can I Produce and Sell?

Don't make the mistake of producing plants and waiting for customers to call. Market demand for nursery stock must be defined before the business is started. The size and diversity of the chosen market will determine the type of plants to be produced. In other words, the species and size of plants produced should be based on expected demand or contract agreements.

Wholesale market demands can be determined by informally surveying the existing nursery industry. A survey could be conducted through mass mailings, advertising, or trade organization channels. Personal communication with existing retail and wholesale nurseries can provide valuable information on market needs.

Market outlets available to a nursery are determined by size, diversity and location of the operation. A large nursery must extend its market well beyond the local level to regional or national channels. A diversified selection of plants is necessary to satisfy regional retail outlets.

Medium or small nurseries can market on the local scene if an adequate selection of plant materials is planned. Medium or small nurseries can sometimes compete in a regional or national market if specialty plants are produced. Specialty plants could include ground covers, specimen plants, or plants with unusual characteristics. Small or medium sized

nurseries might also provide liners and other propagation materials for large wholesale producers in their area. The large producer would then finish and market the plants.

What Will Be the Production Schedule?

A production schedule should be determined before the crop is started and should reflect decisions concerning what to produce and when and where to market it. The production schedule includes such operations as propagation, potting, lining-out, stepping-up, fertilization, pruning, watering, insect, disease and weed control and shipping. Experience and/or training in growing plants is necessary to successfully produce quality plants profitably. Supplemental production information can be obtained through your County Extension Director.

What Are the Cash Flow and Profit Considerations?

The costs of producing individual plants can be estimated from an enterprise budget once the production schedule is established. The budget is a systematic listing of all costs including materials, plants, facilities, wages and salaries associated with production of an individual plant or a plant crop. Estimated plant cost allows the nursery operator to compare costs, determine selling price, and identify plants with expected higher returns.

Cash to meet expenses, such as wages, monthly electric bills, and equipment repairs, must be available. Substantial cash reserve, a large cash flow from plant sales and short-term loans are possible sources of cash to meet this need.

A monthly cash flow budget should be developed to project future cash needs. The cash flow budget is simply a written projection of the amount and timing of cash expected to flow into and out of the business during a particular time period. Cash receipts include income from plant sales, sale of capital equipment, and gifts or loans. Major cash outflows include cash operating expenses, cash purchases of capital items and debt repayment. Managers can compare cash income and cash outflow to determine when borrowing will be required and when loans can be

repaid. Scheduling of both short-term as well as long-term crops may be an essential management move to insure adequate cash flow.

What Is the Best Location, Layout and Equipment for the Nursery?

Site analysis and development is important in planning a nursery. The site will affect the production and marketing costs of a wholesale nursery. Site characteristics which must not limit the nursery design include soil properties, property size and shape, and water availability.

Land should have less than five degrees slope for optimum air flow and surface water drainage. Steeper slopes often limit the layout of the nursery and decrease production efficiency. Steep slopes are also subject to erosion.

An ample supply of high quality water must be available at the nursery site. Specific water problems can include high soluble salts, iron and/or sulfur. Contact your County Agricultural Extension Agent in regard to water testing services.

Environmental and micro-climatic conditions of the nursery site must be considered. Low areas or depressions are subject to cold, frost and flooding. Soil characteristics on the site could contribute to the success or failure of a field nursery. Soil surface and subsurface drainage, and soil adaptability to roadways, are important in container nurseries. Soil surveys are available for most counties from the Soil Conservation Service.

The location of several nurseries in a specific area is mutually beneficial, especially to the small nursery. Buyers are attracted to an area with several nurseries. Cooperative buying of raw materials and cooperative shipping of products are other advantages of this close proximity.

Proper organization of facilities for specific operations in the nursery can increase the efficiency of movement and thus reduce costs. The location of these facilities in relation to each other, and the characteristics of the site, are important considerations.

Each nursery presents its own problems that must be solved in lay-out planning. First list the functional areas needed. Space is generally required for propagation, office, soil preparation, potting, growing areas, shop, and shipping. Secondly, these areas must be arranged to minimize the distance that input materials and finished products must be moved. For example, the potting area might be located between the propagation and growing areas with easy access for raw material deliveries.

Costs of equipment and supplies should be a part of the nursery's planned program and budget. The need for tractors, trailers, trucks, greenhouses, storage and work buildings, hand tools and other equipment, vary with the type nursery. An established farming operation will already have much of this equipment and these facilities.

The proper equipment, designed to do the job at hand, can be a money saving investment. The nursery operator must be sure the equipment to be purchased will fulfill the intended function. Ask dealers for equipment demonstrations, visit fellow nursery operations or consult your County Extension Agent.

An irrigation system designed to meet the unique demands of a nursery is a wise and necessary investment. The design should consider the growing-bed size, amount of water available, prevailing wind direction, types of plants grown, and water needs for cold protection. Information concerning irrigation system designs can be obtained from local irrigation equipment dealers, other nursery operators, or your County Extension Agent.

What Are the Regulatory Considerations?

Inspection of all plants offered for sale is required by the Florida Department of Agriculture and Consumer Services, Division of Plant Industries. An inspection fee is charged to the nursery based on the number of plants in production. Once the plants have been inspected and approved, the nursery must then provide an inspection tag with plants sold. An inspection tag must accompany each movement of plants for resale within the state, all movement of plants out-of-state, all plants shipped by mail, and all citrus stock movement.

Inspection is regulated by the **Florida Department of Agriculture and Consumer Services**. For more information, contact the:

Division of Plant Industry

P.O. Box 1269

Gainesville, FL 32602

Occupational licenses and bonding are also required and can be obtained from the **Bureau of License and Bond of the Department of Agriculture and Consumer Services**. All growers who buy or receive nursery products from Florida producers on other than a cash currency basis must comply with the law. The law is designed to protect Florida farmers and nurserymen. County or city governments may require special licenses and should be consulted in this regard.

Information on occupational licenses and bonding needed for a nursery can be obtained from the local city and/or county clerk. For information on state licenses contact:

Licenses and Bonding Office

Florida Department of Agriculture and Consumer Services

Mayo Building, Room 418

Tallahassee, FL 32304

Generally a nursery is a labor intensive enterprise, although the number and training of employees needed depends on the type and size of operation. The nursery operator should obtain the latest information on Social Security, insurance, income taxes, fringe benefits, and the associated records and reports required.

The **U. S. Department of Labor** has four area offices in Florida which can provide federal wage guidelines. Contact the nearest office.

Mills Building, Suite 110

5410 Mariner Street

Tampa, FL 33609

1150 S.W. 1st Street, Room 202

Miami, FL 33130

P.O. Box 8024-A

22 Lake Beauty Drive

Orlando, FL 32806

3947 Boulevard Center Drive, Suite 121

Jacksonville, FL 32207

The **Florida Department of Commerce** can provide information on workmen's compensation, and Occupational Safety and Health (OSHA).

Florida Department of Commerce

Division of Labor

1321 Executive Center Drive

Tallahassee, FL 32301

Federal tax information is available through the local Internal Revenue Service office. This office provides a businessman's kit to aid new businesses. This kit includes information about a federal tax number, an agricultural tax guide and Social Security requirements.

Information on state sales tax can be obtained from:

Conclusion

The nursery industry offers interesting and rewarding careers for well-qualified, hard-working people. Experience, capital, business knowledge, and complete planning are essential elements of a successful nursery business.

Many technical books and specialized publications relating to nursery production are

available. Consult your County Extension Director for advice and technical assistance. Through the County Extension Office, the help of state specialists with the Florida Cooperative Extension Service can be secured.