

# BULLETIN

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## Driving Down Distribution Costs – Shred One of Your Biggest Expenses Overnight

by Tim Higham

Getting your product to customers is expensive and difficult. Not one of us in this business wanted to open a trucking company, but many growers have been forced into it by necessity – and there seems to be little relief in sight. The transportation and distribution challenge has always been one forced upon growers – a “necessary evil” of sorts that was just part of the business process.

Focusing on this huge expense by breaking it into its sub-parts can be very enlightening. In fact, I worked with one large

grower last year who saved over \$2,000,000 in their first year of implementing a list of changes. They expect to double that this year.

In its simplest form, distribution is quite easy. The complexities arise when your client base grows further afield and it starts dictating when and how you deliver. So, what can you do to drive down your distribution costs? Here are a few ideas that may put a lot of money back in your pocket.

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## Management for Growth: Start Working ON Your Business Instead of IN Your Business

by Andy Buyting

By nature, independent retailers are go-getters. We pull the trigger and get it done. This steadfast and tenacious attitude allows us to compete in a world dominated by Home Depot and Wal-Mart. We have a common DNA: We do not quit.

Armed with this work-or-die attitude, we survive on a tiny fraction of a big box store’s budget. We slash prices and lower overhead while cutting corners, paring down employee hours, and working around the clock. But by doing this, we create a vicious cycle: Though commended for our strong work ethic,

we are left with no breathing room to conceptualize and implement new strategies. Lacking innovation, our shops lose ground to competitors. The more ground lost, the harder we work to cut corners and keep overhead low. The result? The more we strive to keep prices low and allow the store a fighting chance, the less success and fewer resources we have – and the harder we work.

As this cycle wears on, an independent retailer can find himself exhausted and unable to catch a break, committing

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# Greenhouse Sanitation: Should Greenhouses Run Like Hospitals?

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These last ones are somewhat touchy subjects, but people can carry pests too:

- Keep customers out of the production areas. If you retail, keep retail separate from production.
- Avoid light yellow or blue company shirts. They are the same color as insect stick cards.
- Wholesale buyers, sales reps, and Extension agents may visit many greenhouse businesses during a day, but there may be good reasons not to exclude them from the production area. At least provide them an escort, limit their access to sensitive crops, and have them wash their hands before entering the greenhouse.

At this point you may think I'm as crazy as the proverbial bedbug. The question is, should we run a greenhouse like a hospital? Well, that all depends. At one extreme are the growers who propagate sensitive crops for sale to other growers. In that case, many of the sanitation procedures I have discussed may be familiar and ones you already practice in your operation. In

fact, you may practice more careful procedures than I have mentioned such as quarantine areas, insect screening, or steam pasteurization of potting media. At the other extreme are growers who purchase established plugs or liners, pot them into finish containers, and grow them to a marketable size for sale. Some of the sanitation procedures I have discussed may not provide a level of protection that is useful and cost effective for you. The point is, wherever you find your business along this continuum, ask yourself what kinds of pest problems you have had and what level of protection you want against future problems, then implement the sanitation ideas that fit your situation.

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## Optimization and Routing Technology

If there is one area of transportation that you can get the most from technology, it is reducing the number of miles your deliveries are routed – and maximizing how full your trucks are.

The bottom line is that between two points on a map there are literally millions of routes that could be taken. Most simple mapping software bought in a store can do a routing based on the shortest miles, scenic miles (great for vacation traveling), or avoid toll roads (to save money). However, these simple mapping systems have one major flaw: they only do one trip or journey at a time and are designed for car travel. Therefore, they do not allow you to input data about your orders (their size, shape, or constraints). You need to calculate that yourself – a recipe for disaster. If you have, for example, 50 deliveries to make, forget about even getting close to being efficient if you do this calculation on your own. The number of possible routes and trucks needed is so large that it is not uncommon for you to be 20 percent less efficient than even the simplest routing and optimization system. Take this from a guy who sees this every day of the year ... a well honed routing and optimization program will save you up to 20 percent (or more) in miles traveled, trucks needed, and money spent. Go to [www.inmotionglobal.com](http://www.inmotionglobal.com) for more information.

## Trucks and Trailers

I could spend hours going over the buy versus lease argument. However, getting this information is pretty easy, and I don't need to re-hash what you probably already know. So, here are a few tips you may not be aware of.

- Engines manufactured since 2007 have EPA milestones to meet – and are subsequently less fuel efficient in order to meet all the “clean air” checkboxes. So, buy a used truck when possible that is a 2006 model year or before.
- Buy a truck/trailer combo if possible rather than a “fixed” truck (where the trailer is not detachable). This way you can pull different-sized trailers as needed and you can drop trailers for loading and unloading.
- If you use “dry” trailers (vans) make sure they are vented. It is inexpensive and will minimize damage to your material and keep it looking fresh for much longer.

## Driver Selection

There are few positions where one bad hire could close you down for good. A bad driver needs to be avoided, and you should do everything to keep them out of your cabs.

Even the most rudimentary checks will often surprise you. I have seen drivers apply for jobs with forged licenses, fraudulent

resumes and work histories, illegal alien status', and a host of infractions and points on their driving records.

Unfortunately, when the season hits and you need things delivered it is easy for corners to be cut. I know one large grower that had a driver kill several people in a tragic accident last year. The "pre-accident" background check would have avoided this driver being hired at all. The resultant claim will take years to conclude and will be well above their insurance limits.

### Maintenance

Before and after your busy season do a full maintenance checkup on your trucks *and* your trailers. It is the little things that will cost you a lot of money if not taken care of.

I am often surprised how many growers do not have a written maintenance program in place for the trucks and trailers. Odds are, your equipment will break in the heart of the season when you need it up and running the most.

To make sure this is taken care of, contract with a local maintenance company to come and do this for you. Trust me, they won't forget!

### Insurance

Increase your deductibles as high as you can stand them but don't skimp on coverage. Older trucks may be able to be self-insured for physical damage coverage (ask your agent). Another way to save money on insurance is to shop your coverage every year. Insurance markets are very fickle and what was a "tight" market last year may well be very "soft" this year if new insurance companies entered the market. I have seen growers cut their premiums in half for more than one year in a row by shopping every year. It also keeps your agent honest.

### Fuel

If you run a large fleet you can bulk buy fuel and receive a significant discount. You can also pre-buy your fuel and get discount programs at the national truck stop chains.

However, one of the more unique things you can do is convert your diesel engines to bio-diesel. Ironically, this only really works if you have a small fleet (that's right – *small*). I know it may sound counter intuitive, but to make bio-diesel you need scrap oil (like you find at a restaurant for frying french fries). Scrap oil is in relatively limited supply, so running 500 tractor trailers causes a real supply issue. However, if you have a small fleet the supply is not such a huge problem, and many restaurants will give it to you for free as long as you are consistent at picking it up (not just when you need to fill up your tank). The instructions for making bio-diesel are relatively simple and they are available on the Internet. All the equipment can be found at your local home improvement store.

I have a friend that even converted his family vehicles to bio-diesel as he was already using it in his trucks. He said it didn't make sense to buy diesel at the local gas station for his family pickup. Moreover, most engine manufacturers will not void your engine warranty for blends up to 80/20.

### Transportation Management Software

I am sure you have software for every major part of your operations (accounting, inventory, sales). However, for some

strange reason many growers forego a transportation management software (TMS) system. A TMS system will help get you organized and help you "see" how your distribution program can be improved (or where you are doing well). It will allow you and your staff to be on the same page regarding who gets paid what for each lane, for claims, on time delivery information, 3PL effectiveness, and driver performance. It will also help you turn a traditional "cost center" into a "profit center."

Just like you have an accounting system to monitor and track your payables and receivables, an effective TMS will let you effectively and in real time manage one of your largest costs. Go to [www.inmotionglobal.com](http://www.inmotionglobal.com) for more information.

### Outsourcing

The saying goes that if it isn't a core competence you should outsource it and concentrate on your core business.

Adam Smith, the famous Scottish economist of the mid 1700s, is well known for a simple yet effective concept known as the "division of labor." I guarantee you use it every day in your business. The basic concept is simple: people are more effective and efficient if given one task and taught to do it well. For example, Ford does not make cars by having one person make the entire car. They divide the car making process into distinct phases, put an assembly line together, and have each person responsible for "their" task. It is fast, efficient, and minimizes production problems.

As a grower, you use Adam Smith's concept daily. You have specific people perform specific jobs – because they get good at what they do and you have clear lines of delineation between responsibilities.

You can accomplish these same efficiencies by *outsourcing*. To some extent you already do this. You probably don't make your own pots or boxes – you "outsource" the task to a company that can make so many of them they can drive the unit cost down and let you focus on your core competency. Another common task you outsource is payroll checks. It is cheaper to have a third party like ADP process pay checks and pass the appropriate tax monies to the IRS for your staff than for you to do it.

If you have any decent shipping volume then outsourcing your transportation to a reliable partner is likely the way to go. More information can be found at [www.interstate-transport.com](http://www.interstate-transport.com).

### Co-Op Involvement

Since the beginning of agriculture and farming, cooperatives (co-ops) have been commonplace. For some reason, in the last few decades they have become less and less popular. This is probably due to more emphasis being placed on service to customers regardless of costs.

When people think of co-ops they tend to think of arrangements between growers in the same geographical areas sharing a truck in order to deliver to a common market. However, another interesting co-op can also exist that can be even more efficient. If you own your own trucks it is likely that you are delivering your plant material and then you have to drive back to the nursery empty. Those empty miles drastically

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increase your costs. However, it is likely that other growers who grow different material, located miles away, need to deliver to your area or neighborhood – so why not use your trucks to pick up their material and deliver it for them?

Some very interesting partnerships have evolved in this way which allows growers to drive less deadhead miles and to get paid for what used to be idle miles.

### Starting A Trucking Company

This may sound a little counter intuitive, especially as we started this article talking about how you want to stay away from the trucking aspect of growing and selling plants. However, to add to the above cost saving idea as you grow your organization and start delivering further and further away, you may decide you want to bring any kind of commodity back to your home location and get paid for it.

The only way to haul other commodities is to formally set up a trucking company with your own Motor Carrier (MC) number filed with the government. This means you will be able to pick up a load of baked beans, chicken tenders, or paper plates – and get paid the going rate. The only drawback is that your trucks will be tied up with other clients' loads during times when you may need them for your own customers. However, I have seen growers turn what was once a huge cost center (trucking) into a huge profit center (trucking company) generating millions of dollars in profits each year.

### Racks

Many growers invest in racks and end up worrying about where they are and how to get them all home. Every year 10 percent or more seem to simply disappear, 20 percent need

major maintenance, and then they only seem to last 3 to 5 years before they need to be replaced. On top of this, drivers need to get paid to locate the racks, break them down, and recover them. Not only is this a cost, it's a headache.

One way around this (other than not using racks, of course) is to rent racks for one way trips. At first it may seem expensive, but remember that once the rack is left at the customer location it is no longer your responsibility. All you need to do is order more racks as you need them and pay for them each time they are used. Some growers have completely eradicated owning and maintaining their own racks and now use companies like EZ Shipper Racks ([www.ezrack.com](http://www.ezrack.com)) and Container Centralen ([www.container-centralen.com](http://www.container-centralen.com)).

There are many opportunities to save money and drive down distribution costs. One of the major reasons is that distribution is such a large part of growing and selling plants. For many growers it is their single largest cost.

I have seen growers save millions of dollars every year by executing a multi-pronged approach. The best part about distribution changes is that many of the cost- saving initiatives you implement today have immediate results – and that means real money in the bank when you need it. Now!

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# Management

## Management for Growth: Start Working ON Your Business Instead of IN Your Business

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to a lifetime of sacrifice whereby family, free time, and hobbies take a back burner so the store can survive.

The good news is that this paradigm can be reversed. Indeed, the independent retailer's goal should be not to sacrifice himself by working for his store, but rather to put his store to work for him. Instead of working on the floor stocking shelves and answering phones, the independent retailer should devote time to creating, implementing, and managing systems that allow the store to thrive, even in the owner's absence. The retailer should be working *on* the business instead of *in* the business.

Consider the typical specialty retailer's attitude toward employees. In its early stages, an independent retailer staffs few employees, if any, opting to handle all aspects of a business himself. During tight times, and especially during a store's infancy, an owner is panicked by the thought of hiring support staff or expanding existing staff. Retailers often have neither the time nor the energy to meet the demands of the business, but they have not yet achieved the financial stability to comfortably hire a consistent employee base. They are not only apprehensive about delegating customer service – the most important of tasks – to