

# **User Guide to the Cornell Greenhouse Business Summary Program for Financial Benchmark Analysis**

by

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The Cornell Greenhouse Business Summary Program is designed to perform business profitability and industry financial benchmark analysis for greenhouse operations. This program is developed to assist greenhouse operators and allied professionals to evaluate the performance of a business in relation to industry standards, and this service is being offered free of charge to New York greenhouse businesses in 2006 and 2007.

Financial benchmark analysis involves development of key performance indicators that reflect basic practices in a specific type of business and region, which enables managers to identify the strengths and weaknesses of a company in order to establish goals for improvement and to capitalize on its advantages. Ideally, benchmarks should be representative of industry-leading firms as a model for emulation but may also include statistical information on variability of benchmark measures. All information about the individual business is kept confidential.

Industry benchmark values used in this program were developed from financial statements and production records collected from over 40 greenhouse production firms in New York between 1999 and 2005, and will continue being updated with data collected from participants. Benchmark measures provided in this program include indicators for productivity, profitability, financial solvency and liquidity. Analysis reports generated by the program consist of a series of tables and charts that report the following information for two industry groups (wholesale and retail) and an individual firm for comparison:

- Basic Financial Statements: Income statement, balance sheet, cash flow
- Basic Business Information: Annual sales, primary marketing method, major crop, production area, average weeks operated, total square-foot weeks operated.
- Productivity and Efficiency Indicators: Sales per square foot (square-foot week) and per full-time equivalent employee, square-foot greenhouse production area per full-time equivalent employee, plant inventory and capital turnover, greenhouse assets, liability and owner's net worth.

- Annual Operating Expenses: Reported for 3 major categories, operating, overhead and individual expense items, as percent of sales, per square-foot and per square-foot week.
- Financial Ratios: Debt/assets, current ratio, leverage, quick ratio.

Program participants would enter their financial and other data into the input forms and submit the information for analysis. Any number of individual firm-year records may be submitted. A Cornell business management specialist will be available to assist in the process and review the report.

Information required for the analysis includes:

- Records of receipts and expenses
- Asset inventory
- General Business Information: Production area, labor hours, etc.

## **Instructions for Completing the Cornell Greenhouse Business Analysis Input Forms**

### **Section 1. General Business Information**

#### **A. General Information:**

- Fill in the year for which the business analysis is being conducted, and if you are on fiscal year accounting, fill in the month and day your accounting year ends.
- Fill in all the contact information when applicable.

#### **B. Marketing Channels**

- Provide percentage of sales from wholesale and retail sales for the analysis year. They should add up to 100%.

#### **C. % of Greenhouse Business Sales from**

- Provide percentage of greenhouse business sales from different crops

#### **D. Other Business Information**

- Legal Entity/Business Type:
  - Sole Proprietorship: An unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from the owner. Its liabilities are the owner's personal liabilities.

- Partnership: General Partnership (or Simple Partnership) and Limited Partnership. A general partnership is an unincorporated association of two or more people to carry on as co-owners of a business for profit. A partnership is viewed as being one and the same as its owner. Limited Partnership consists of two or more persons, with at least one general partner and one limited partner. While a general partner has unlimited personal liability, a limited partner's liability is limited to the amount of his or her investment in the company.
- Corporation: A business corporation is a separate legal entity created under the authority of a state incorporation statute to carry on any lawful business activities. The ownership interests held by shareholders in a business corporation are referred to as shares of stock. The distinction between C Corporation and S Corporation is related solely to the status of a business corporation for purposes of income taxation.
- Limited Liability Company: An incorporated association having one or more members as its stakeholders. LLCs are hybrid entities that combine attributes of business corporations with a partnership.
- Accounting Method
  - Cash-Based Accounting: Sales are recorded only when the money is received, and expenses are recorded when the bills are paid.
  - Accrual-Based Accounting: Sales are recorded when the sale occurs, no matter when the money is actually received. Expenses are recorded when the goods and services are received, even though the bill may not be paid until a later date.
- Net Credit Sales – as % of Total Sales: Credit sales are merchandise or services sold on the promise to pay later.

## **Section 2. Business Area**

- Total Greenhouse Business Area includes all area used for the greenhouse business, including roads, offices, packing shed, parking as well as grower area.
- Production Area includes only net useable growing space, i.e., bed or bench area in use (square feet).
- Outdoor Production Area includes outdoor areas used for greenhouse crop production.

### **Section 3. Capital Assets and Depreciation**

#### **A. Machinery and Equipment**

- Provide the book value for the machinery and equipment during the fiscal year of analysis.
- Machinery Sold or Destroyed – List machinery and equipment that was discarded or disposed of by sale and items that were destroyed by disasters (fire, flood, or others). Do not list items traded in here. Report insurance received from machinery destroyed (if any), and deduct the amount from the end inventory.

#### **B. Land and Building (Cost Based)**

- Based the land value on the original purchase prices.
- Depreciation only applies to buildings and not land.

### **Section 4. Value of Leased Property**

- Leased assets are valued at current market value. Assets leased by stockholders or owners to a closely held (or family) corporation may be treated, at the participant's option, either as a leased capital (fill in this section) or as owned capital (fill in section 3 – Capital Assets and Depreciation).
- End-of-the-Year Balance can be calculated by multiplying the amount of each payment times the number of payments remaining for the item.

### **Section 5. Other Business Assets**

Provide cash on hand and accounts receivables values at the beginning and ending of the fiscal year.

### **Section 6. Greenhouse Labor**

- Begin by identifying owners/operators of the farm. In instances where a husband and wife operate and manage the farm as a team, both may be included as owners/operators.
- Owner's draw or salary should be recorded separately from the rest of the labor wages and salaries no matter what legal entity the business is.
- Labor hours: Report the total hours worked during the fiscal year. Full-time employee equivalents will include hours for all employees, management, and unpaid family labor. A full-time employee equivalent is calculated as 2,500 hours/year (or 50 hours/ year and 50 weeks/year).

- Employee benefits include items such as workers compensation insurance, health insurance, profit sharing.
- Employment taxes include items such as federal income tax withholding, unemployment tax, social security and Medicare taxes.

## **Section 7. Inventory & Prepaid Expenses**

### **A. Value of Plant in Inventory:**

- Plant inventory valued at expected sales prices, adjusted for percentage of completion. For example, if the greenhouse has even turnover, and the plant inventory averages 50% finished, the inventory value would be the prices discounted 50%.
- Provide wholesale plant and retail plant inventory separately or the total amount at the ending and beginning of the fiscal year.

### **B. & C. Value of Plant in Inventory and Prepaid Expenses:**

- Provide the ending and beginning values in the fiscal year. The values will be used to adjust cash-based accounting to accrual-based accounting and calculate asset values.

## **Section 8. Accounts Receivable and Payable**

### **A. Accounts Receivable:**

- Provide wholesale and retail accounts receivable separately or the total amount at the ending and beginning of the fiscal year.

### **B. Accounts Payable:**

- Provide the ending and beginning values in the fiscal year. The values will be used to adjust cash-based accounting to accrual-based accounting and calculate asset values.

## **Section 9. Financial Information**

- Long-Term Debt: Loans and obligations with a maturity of longer than 10 years.
- Intermediate-Term Debt: Loans and obligations with a maturity of between 1 and 10 years.
- Short-Term Debt: Loans and obligations maturing within one year.
- Other Current Liabilities: Other debts and obligations that must be paid within one year.

- Provide the values at the beginning and end of year.

**Section 10. Income from Greenhouse Operation**

Income: Wholesale and retail sales, brokered sales (finished product purchased and resold), other miscellaneous business income.

**Section 11. Expenses from Greenhouse Operation**

Expenses include Direct Variable Costs, Indirect Variable Costs, and Fixed/Overhead Costs. Specify if the value provided are cash-based accounting or accrual-based accounting.

**Section 12. Non-Greenhouse Income and Expenses**

Record any non-greenhouse income used in the business or any non-greenhouse expenses paid by the business.