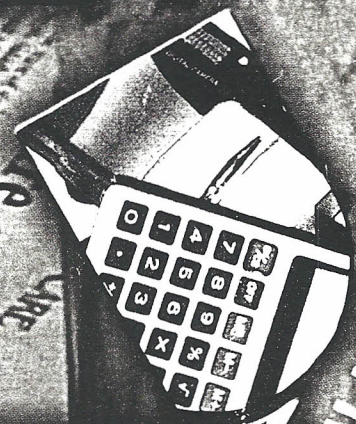
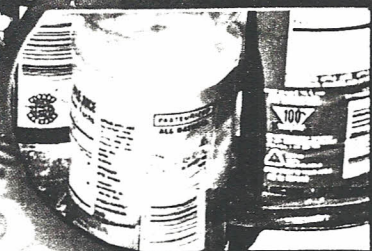
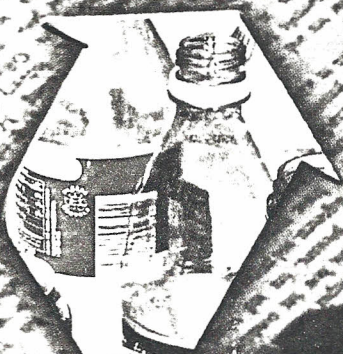
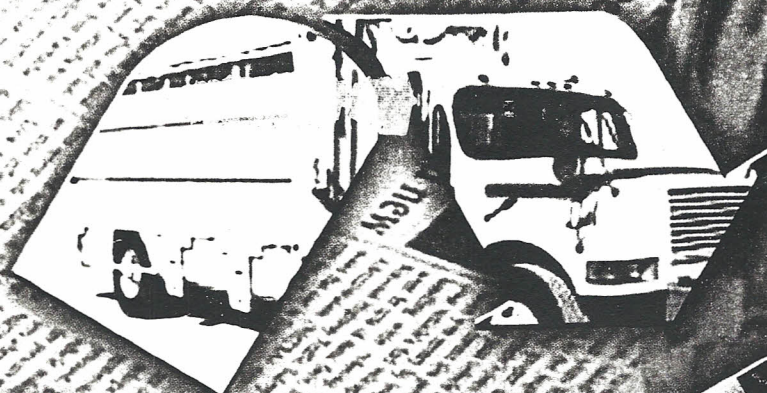


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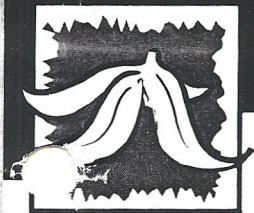


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Organics

Profitability as a Concept for Composting

By Ned Foley

Taking temperatures, squeezing feedstocks, working recipes, managing materials, maintaining and repairing equipment, policing incoming loads and managing people are some of the many tasks that make up a day in the life of a composter. Remaining viable in the composting industry is dependent on a concept that sometimes takes a backseat in our everyday consciousness—profitability.

Composting profitability is a concept that has different meanings for us and that is dependent in large part on the goals of the composting operation. Reasonable goals and knowing where your compost operation fits will ultimately define profitability for your operation.

Differing Models, Similar Goals

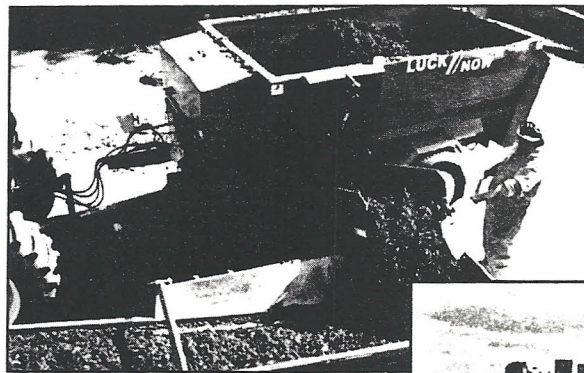
The compost business paradigm exists in two primary forms—composting as an enterprise and composting as a waste minimization or waste management practice. Despite the inherent differences in these models, the goal remains the same—profitability.

Sometimes referred to as private composting, the enterprise model most closely mirrors the traditional business practice of creating a product or service for a profit. In this model, composting as a business stands alone. The entrepreneur creates a business that generates revenue through “tipping” organic waste streams from other producers. The material is processed and composted onsite; additional revenue is generated through finished product sales. This model is comparable to a traditional factory that purchases raw materials, manufactures a product and sells the finished goods to the public. Measuring profitability, or a lack thereof, is simply a matter of totaling all sources of revenue and subtracting costs.

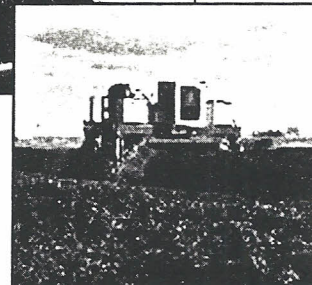
The waste minimization or waste management model is comprised of the large organic waste producer and the municipal composter. The organic waste producer in many instances is a traditional business that is attempting to solve a waste problem. Profitability is approached in a more roundabout way than the enterprise model.

A typical example is the processed food manufacturer who produces a large volume of organic waste as a byproduct of the transformation process. Rather than incur the high cost of landfilling the byproducts (a cost that goes to the bottom line), this waste is composted as a means of reducing the volume and possibly generating some minimal revenue streams. The revenue generated normally does not cover the cost of handling and composting, but when compared to the cost of landfilling, the processor reduces the cost of disposal. Savings in landfill fees when coupled with some revenue doesn't necessarily translate into a stand alone, profitable business. Rather, composting contributes to the overall profitability of the larger operation by reducing disposal costs.

The municipal composter also fits within this second



Composting equipment can pose problems to the bottom line of a composting operation when things like maintenance are not properly accounted for.



model. The municipality that composts is seeking to minimize wastes in its community. Legislative and regulatory imperatives are the primary driving force for this type of composting. Because they are largely taxpayer-funded, economical means of composting are a must. The goal is to find the least costly means of waste disposal to maximize revenue.

Of course hybrids within these two models exist. Farmers who compost manures to reduce volume, improve farm soils and produce some income, receive additional economic benefits through reduced fertilizer and pesticide use. Whatever the hybrid, in the end, their primary function will come from either the waste model or enterprise model.

Profitability for each of these business models requires a unique measure of fiscal responsibility, as each model is inherently bottom-line driven, be that bottom line calculated in savings or earnings. For either model, profitability is truly an objective measure of the value of the operation. Profitability is the holy grail of all compost business paradigms simply because the operation will cease to exist without it.

Know Your True Costs

At its core, profitability requires an honest financial assessment of the compost operation. When making this financial assessment, it is imperative that the operator avoid the “Enron” style of accounting. Treating some costs, consciously or subconsciously, as off the book precludes a thorough understanding of the operation and obscures a true measure of profitability. Without this understanding, the fate of any business is compromised.

Failing to account for all costs is not necessarily as dangerous an exercise as portrayed by the celebrity CEO's currently under indictment. Composting as a business is in its infancy and not well defined. Merely trying to survive each month often leads to looking no further than the monthly debt load. Simply looking at this figure ignores a whole host of costs.

A typical example would be the food processor composting its own processing wastes. While this producer does not receive a tipping fee for its wastes, it incurs increased liability by retaining the material onsite for a greater period of time (the composting period) rather than immediately disposing of it. This exposure has measurable costs and must be accounted for in the operation.

Likewise, borrowing equipment from within the organization for occasional use in the composting operation, such as the dump truck used to move material once or twice a day, precludes its use in other aspects of the operation and therefore incurs a cost. The composter's retort that "We have the equipment and it's paid for, so it really doesn't cost us anything," reflects a denial of simple accounting and economic reality. This can be exacerbated by claims that the equipment is budgeted for in another department. The truck may not have a cost in the composting budget, but it does have a cost to the overall operation.

Another example is the municipality that receives an Act 101, Section 902 grant from the Department of Environmental Protection (DEP) to purchase a \$300,000 grinder. This white elephant has costs well beyond the grant's matching portion. The grinder may still cost in excess of \$100,000 per year to operate and maintain.

Resources diverted from other municipal operations, such as road maintenance, will have an impact on overall costs. The borrowed dump truck often occurs in these circumstances. The township that fails to charge residents a tipping fee and gives away finished product must include the significant costs of operating a compost site in its budget. Failure to account for these costs will have a devastating impact on the taxpayer in the community.

Profitability should not be a foreign concept for any composter, particularly where operational goals define the objective measure of the bottom line. By knowing your model and taking an honest measure of your costs, enough information will always be available to make decisions to maintain your composting operation's profitability. ♻️

Ned Foley is the owner of Two Particular Acres, a 30-acre farm in Upper Providence Township, Montgomery County. He also serves on PROP's Organics Council. For more information about his operation, please visit www.twoparticularacres.com.

Calculating Costs: Real World Lessons

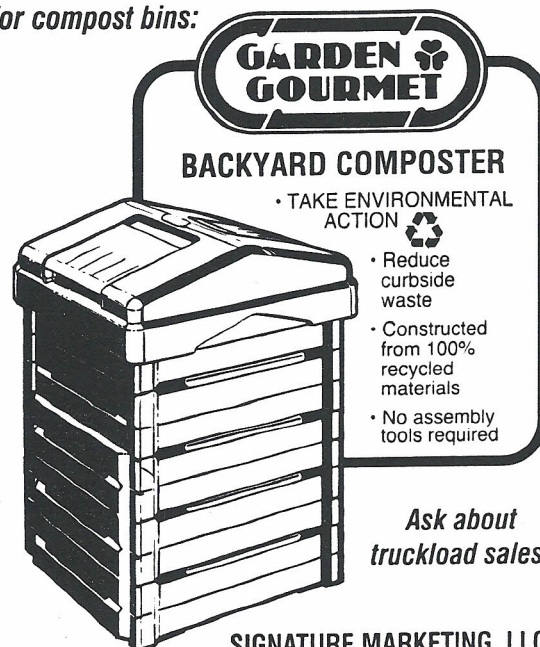
Example #1: Hidden Costs

A food processor who composts its own processing wastes incurs hidden costs. Though the producer does not receive a tipping fee for these wastes, it incurs increased liability by keeping the materials onsite for a greater period of time. These costs must be accounted for in the operation.

Example #2: Equipment Costs

Resources diverted from other municipal operations, such as road maintenance, will have an impact on overall costs. A typical example is the dump truck borrowed from one department for use in the composting operation. The use of the truck in the composting operation precludes it from being used in other areas. The truck will also have maintenance and fuel costs that must be accounted for.

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