



From craft to business

A public management letter for
the Greenhouse Horticulture Sector

November 2011

NBA

Nederlandse
Beroepsorganisatie
van Accountants



NBA

The Royal NIVRA and NOvAA are set to merge, resulting in the establishment of a new organisation, the NBA (Nederlandse Beroepsorganisatie van Accountants - The Netherlands Institute of Chartered Accountants). The NBA's membership comprises a broad, varied occupational group or over 20,000 professionals working in public accountancy practice, at government agencies, as internal auditors or in organisational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are fundamental principles for every accountant. The NBA assists accountants in fulfilling their crucial role in society, both today and in the future

To businesses in the greenhouse horticulture sector
and other interested parties

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Dear Sir/Madam,

The public management letter From craft to business is a product of the NBA Sharing Knowledge programme. The focus is on greenhouse horticulture, a special Small and Medium-sized Enterprises (SME) sector and an important element in the Dutch economy. In this letter we set out five signals and recommendations. These are intended for businesses (also referred to as market gardeners or growers), public authorities and accountants in the sector:

1. From craft to business
2. Buffers in a changeable market
3. Business is international
4. Need for tailored regulations
5. Accountant as critical adviser

The greenhouse horticulture sector is one of the Netherlands' nine top sectors. It is a dynamic sector, with many risks and opportunities. Globalisation is resulting in increasing competition and the sector has acquired a fragile image. The effects of the E.Coli outbreak in Germany speak volumes. It is precisely in such a context that business skills are required - craftsmanship alone is no longer enough. Increased scale, innovation and specialisation require skilled entrepreneurs with a well-organised business who create the necessary financial buffers to absorb fluctuating price levels. These are, after all, natural products, which are susceptible to disease and with a limited shelf-life.

The sector is incorrectly viewed as offering little sustainability, whilst it actually leads the field in saving energy: the concept of the heat and power plant is unique. The products comply with very strict requirements relating to the environment and food safety. Finally, businesses are doing their best to work only with bona fide employment agencies. Although the government is fully engaged with its top sector policy, there is still room for improvement and simplification in terms of tax and subsidy regulations.

Naturally we also have a message for our members in the sector: adopt a professional critical attitude in the advisory role as well. This is not always generally visible, since the discussions often take place at the entrepreneur's kitchen table. Yet accountants are expected to adopt this attitude, particularly by bankers.

This public management letter is based on the knowledge of our members who work in the sector. Various stakeholders including the Ministry of Economic Affairs, Agriculture and Innovation (EL&I), LTO Noord and bankers in the sector have given us their comments. We are very grateful to all of them for their contributions.

Yours faithfully,



D.J. ter Harmsel AA FB
Chairman of NOvAA



H. Geerlofs AA
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NIVRA en NOvAA gebruiken de merknaam NBA (Nederlandse Beroepsorganisatie van Accountants).
De wettelijke fusie van NIVRA en NOvAA tot NBA moet nog plaatsvinden.

Nederlandse
Beroepsorganisatie
van Accountants



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01 | A Dutch Top sector

Greenhouse horticulture is a special sector within SMEs and is part of the Horticulture and Parental Material (planting stock) Top Sector. This sector accounts for 12.5 billion euro of domestic production, 17 billion euro of exports and more than 450,000 jobs¹. The Netherlands is the world's largest exporter within floriculture and number three in food horticulture. Various companies in the top sector lead the world. The government has formulated five objectives for the top sector in its letter to parliament entitled *Naar de top: het bedrijvenbeleid in actie(s)* [To the top: business policy in action(s)] which are based on the advice entitled *Bron voor Groene Economie* [Source of a Green Economy] from the Horticulture and Parental Material Top Team:

- world leader in international entrepreneurship;
- international centre of excellence for knowledge, research and development;
- the world's most sustainable sector;
- optimum space and infrastructure;
- balance between growers' rights and patent rights.

The government's objectives overlap to some extent with the signals and recommendations in this public management letter. But first a brief description of the greenhouse horticulture sector.

The sector's roots lie in local family businesses which could develop further because of the favourable climate and cheap gas prices. The auction system meant that sales were more or less regulated. The goalposts have shifted considerably since then. Many companies have made the switch to large-scale production. Ever-larger investments are needed in order to retain market share. International competition is growing. Globalisation has given the sector a fragile image, and prices are increasingly in flux. The traditional focus on cost reduction by increasing the area under cultivation is less successful than before. The government is chipping

in with strict environmental and food safety requirements, without the sector managing to use this as a good marketing tool. The poor results in recent years have meant that many greenhouse horticulture businesses have been placed under special credit management by their banks. Banks have become more critical of investment plans and the number of new plans is falling. All these developments demand greater professionalism in the management of the businesses and better collaboration in order to be able to resist the pressures from distributors and the multiples.

The accountants in the sector are seeing this close up. Because the companies are mainly SMEs, the accountant generally does not act as an external auditor, but as the preparer of the annual accounts and business adviser. This role is at the heart of this management letter. The entrepreneur is also advised by cultivation advisers, energy specialists and other external experts. The added value offered by the accountant lies in the overall view which he has of the business and the fundamental principles of the accountancy profession, whereby integrity and objectivity are primary. Professional skepticism is also appropriate for the role of advisor.

In this public management letter the Nederlandse Beroepsorganisatie van Accountants (Netherlands Institute of Chartered Accountants - NBA) highlights a number of problems in the greenhouse horticulture sector. The management letter is the product of the NBA's Sharing Knowledge programme. In this programme accountants' collective knowledge is used to identify risks in sectors of society at an early stage. The emphasis is on identifying organisational risks in the areas of finance and administration. The material gathered by the accountants in the sector formed the basis for five signals and recommendations which are discussed below in chapter 02. Chapter 03 discusses the signals in more detail with relevant practical examples. Finally chapter 04 summarizes the responses from stakeholders.

1 From: *Bron voor Groene Economie*. Topsectoradvies Tuinbouw en Uitgangsmaterialen. June 2011



02 | Five signals and recommendations

For businesses

1. From craft to business

Many businesses in the greenhouse horticulture sector have made the transition from small family firm to large-scale business in recent years. Greenhouse horticulture's roots lie in small scale activity, whereby capital and management were in the hands of a single entrepreneur. However, growth means that the entrepreneur can no longer do everything himself. He must learn to delegate to professionals and invest in his own internal organisation, including an adequate organisational structure and up-to-date management information.

RECOMMENDATION 1

Ensure professional management

- Draw up a clear strategy for the business, which is modified annually on the basis of the results achieved. This forms the basis for decision-making and the provision of information within the company. Investments must be properly justified, driven by a long-term vision. Growth or the lowest cost price are not always the best strategy.
- When the business grows, delegate work in good time and call upon specialists where necessary (internal

managers and/or external advisers) for the management of the internal processes. Share business knowledge and experience with all employees within the company. Managers can learn from one another by exchanging information with one another. This gives the entrepreneur the space to develop the correct vision and strategy and to adjust internal processes at the right time.

- Ensure a good information system matched to the company's specific characteristics. A business cannot operate without reliable information. Growth does not just mean ensuring better internal control, but also adequate management information, matched to processes, products and locations and included in a cycle of planning and auditing.

2. Buffers in a changeable market

Greenhouse horticulture is traditionally a production-oriented sector. Entrepreneurs tend to invest the proceeds of a good crop year in expanding the business and increased scale immediately. Up until recently, the banks were happy to finance these expansions, but have now become more reticent. Very few financial buffers are created for changing times. Yet this is what is required in an uncertain market with a delicate product and changeable pricing. Attention paid to creating buffers is an essential element of good risk management.

RECOMMENDATION 2

Create sufficient financial space

- Do not reinvest earned profits in expansion of the business straightaway. A good crop year can often be better used for consolidation and strengthening the financial reserves. The unpredictable pricing of horticultural products can only be absorbed successfully by building up financial buffers. It is more important now than in the past two decades that the buffers be maintained in the form of cash. The downward trend in land prices means that additional financing based on hidden reserves in real estate is often no longer possible. Additional repayments of existing loans is not always efficient. Although it improves solvency, it is not always possible to draw upon the borrowing capacity again.
- Seek out distinctive products and alternative sales channels. For the bulk products such as tomatoes, cucumbers and peppers there needs to be liaison between growers' associations in order to approach the market jointly, although obviously within the limits of competition rules. Growers must become an equal trading partner for the distributors and supermarket chains, in order to prevent them being played off against one another. Financial buffers improve the scope for negotiation and ensure a stronger starting position.
- Match the size of the financial buffer to the specific characteristics of the business, the type of products and the plans for the future. There are no absolute percentages for this. One might consider a percentage of the anticipated annual turnover or the maximum profit margin that can be sacrificed without falling below the cost price.

3. Business is international

Globalisation means that greenhouse horticulture is increasingly international. A large proportion of the turnover consists of exports. But products grown abroad are also finding it easier to enter the Dutch market. Increased production and reduced costs do not offer a solution. Instead, it is better to invest in product specialisation, innovation (sustainability) and better marketing. More attention could also be paid to international collaboration or establishing locations abroad close to the customers.

RECOMMENDATION 3

Recognise that business is international

- Place emphasis on specialisation, innovation and marketing. Developing exclusive products offers a better future than increasing the bulk. Growers need to start working together more in order to promote the Dutch unique selling point of food safety and sustainability. Sustainability is an important key to innovation and competitive advantage. The sector is already developing the required initiatives, but there is a particular need for structure and visibility for the general public.
- Call on specialist accountants and advisers when doing business internationally. Doing business across borders is complicated. Recognise that accountants and advisers can help build a sound organisational structure and information provision, so that it is ready in time for international expansion.
- Arrange facilities to support growers who want to establish locations abroad. The Agro Directorate of the Ministry of Economic Affairs, Agriculture and Innovation, the Productschap Tuinbouw [Product Board for Horticulture] and LTO Nederland [Dutch Organisation for Agriculture and Horticulture] can play a role in this.

For the government

4. Need for tailored regulations

The greenhouse horticulture sector is confronted with a great deal of regulation. Regulations must be transparent and consistent, only open to one interpretation and take account of the specific characteristics of the sector.

There is room for improvement in terms of tax write-offs on real estate, the turnaround time for subsidy applications and the application of the Wet ketenaansprakelijkheid [Sequential Liability Act].

RECOMMENDATION 4

Ensure tailored regulations

- Modify the restriction on tax write-offs on buildings in the Wet Inkomstenbelasting 2001 [Income Tax Act 2001] and the Wet op de vennootschapsbelasting 1969 [Corporation Tax Act 1969] in such a way that account is taken of buildings which only have a limited lifespan - such as greenhouses and their fixtures and fittings - by applying a different criterion than the value under the WOZ [Real Estate Valuation Act].
- When designing subsidy schemes, take account of the often long-term nature of investments and growing seasons. Requests for further information should not be grounds for extending the maximum ruling period.
- Create a rule that growers who use certified employment agencies are guaranteed to be indemnified against liability, provided that they have complied with a number of minimum requirements. It thereby helps if growers include the requirement of NEN 4400-1 certified labour in their quality marks such as Fair Trade and EKO.

For accountants

5. Accountant as critical adviser

From their role in preparing annual accounts, accountants in the greenhouse horticulture sector act as advisers in the areas of finance, administration and tax. In this role they must also adopt the position of an independent and critical professional, governed by the fundamental principles in the accountants' code of conduct. Integrity and objectivity are thereby of primary importance. The accountant can serve as a critical sounding board and hold a mirror up to the entrepreneur. By questioning high risk plans and thus daring to raise the issue of the future of the business. Specialist knowledge of the sector is also required. This is not something which an accountant can just pick up overnight.

RECOMMENDATION 5

Dare to be critical as an adviser

- Always adopt an attitude of professional skepticism, governed by the fundamental principles of the accountants' code of conduct. Society's interests may not suffer for the sake of the client's interests. Therefore hold a mirror up to the entrepreneur and do not blindly accept the recommendations of specialist consultants. Safeguard businesses with a relatively high level of capital from excessive optimism by drawing their attention to the outcomes of their forecasts periodically, even if the bank does not demand it. The presence of sufficient capital is, after all, no guarantee of success for an investment.
- Push the issue of the future of the business higher up the agenda in economically challenging times. It is often difficult for an entrepreneur to acknowledge that it is sometimes better to close his business than to continue accruing losses for years. It requires special skills in the part of the accountant to create sufficient clarity in this situation without losing the entrepreneur's trust. It also requires close liaison with all the parties involved in the business, particularly with the banker.
- Ensure sufficient knowledge of the sector and additional training. Greenhouse horticulture is a complex sector with a lot of changes, which an accountant cannot just pick up overnight. In order to be able to provide a good counterbalance to other specialists, the accountant himself must also accrue the necessary expertise. He must be able to grow along with his client.

03 | The five signals in detail

SIGNAL 1: From craft to business

Many businesses in the greenhouse horticulture sector have made the transition from small family firm to large-scale business in recent years. This has often involved capital-intensive investments, with the focus on increasing the area under cultivation. Increasing scale is a fact of life which is often required in order to be able to survive or innovate. However it does make particular demands of the entrepreneur. Greenhouse horticulture's roots lie in small scale activity, whereby capital and management were in the hands of a single entrepreneur. The focus on the primary cultivation process meant that there was too little investment in the organisation. However, growth means that entrepreneur can no longer do everything himself. He must learn to delegate to professionals and invest in his own internal organisation.

In the greenhouse horticulture sector businesses were traditionally managed by the entrepreneur who makes all the decisions himself. Kinship and knowledge of crops were more important than financial and managerial professionalism. The administrative organisation and the management information at the companies were limited due to the lack of any need to be accountable to third parties. Virtually no supervisors or supervisory directors were appointed, and there was usually no internal audit role. In the small-scale family business phase this gives few problems, because the entrepreneur can be in direct touch with all the developments and results at the business. He has an overview of the entire business and directly manages all business processes. This

means that he has all the information needed in order to make timely decisions and adjust the course of the business where necessary.

The growth of the businesses, the increasing complexity of the cultivation processes and the constantly changing market mean that the entrepreneur can no longer be involved in all the activities. Particularly not if the company is based at various locations. This means that he can lose his overview, and make incorrect decisions. This can endanger the survival of the company. As well as entrepreneurial skills, there is therefore a need for a new sort of professionalism: knowledge and experience with regard to internal organisation, management and the provision of information. The entrepreneur must be prepared to take a step back from the primary processes and make the business less dependent on him. He must go back to doing what he is good at: developing a clear strategic vision and coming up with innovative ideas.

He can delegate responsibility for the internal organisation and the operating processes to specialist employees or managers. He must be prepared to give them freedom to act; continuing to deal with the details will have a deleterious effect. This requires the creation of an internal structure with clear responsibilities, powers and information flows. It is better to design the business for growth in advance, rather than having to find afterwards that things have got out of control. Every growth phase for a business has a corresponding company structure.

The entrepreneur can also hire in specialist knowledge. It is thereby important that he continues to work from his own strategic vision at all times, linked to the specific features of his business. He must retain an overview and be able to attach appropriate weight to advice with a sufficiently critical view.

As well as delegating, there is also the need to work on a good information system, with timely management reports and up-to-date information, matched to processes, products and locations and included in an internal cycle of planning and auditing. A reliable system ensures that decisions that are made can be evaluated retrospectively. This gives insight into the effects of those decisions, and the course of the business can be adjusted in good time.

Negative example

Uncontrolled growth of a small business

Company A grows pot plants. There has been substantial growth in recent years due to the enthusiastic commitment of entrepreneur T. He is involved in all phases of the cultivation process, from buying cuttings through to selling at auction. T is bursting with new ideas and he has all the required information at his fingertips. Although it is very normal for him to work 60 to 70 hours a week, he does not want to appoint any managers. That is too expensive: he wants to invest all his money in growth. T has hired a number of external cultivation and energy advisers, who present him with highly ambitious plans. These are right up his street. Although the purchase price of energy is below his maximum affordable cost price, he decides to follow the advice to gamble that prices will fall. He also invests in a new cultivation method which is still in its infancy. Then things go wrong. The energy price rises substantially and T has to take out an expensive contract. Cultivation problems suddenly occur, resulting in additional wastage and complaints from customers. Additional costs need to be incurred. T urgently needs specific management information, but that has never been entered in the records. Suddenly he needs to be everywhere at once and made ad hoc decisions. Things are in danger of getting out of hand, T is sinking further and further into the red. Only a drastic reorganisation can save the business from bankruptcy.

Positive example

Up-to-date management information

Cucumber business B has invested in an extensive management information system. Monthly reports are produced on sales, production and costs. These include energy and packaging costs for each location, kilograms per square metre, waste and wastage percentages, average weight per pack, average selling price and the ratios between harvest, packaging and sales. The internal control is the responsibility of the financial director, who periodically receives detailed information from the other directors and managers. Managers operate at the various locations and are responsible for the various processes. This means that the directors have enough time and focus to draft a clear strategy for the future and make well-supported decisions about investments, collaboration and the introduction of new varieties. The presence of a middle management layer offers employees the opportunity to specialise. This investment in the internal organisation meant that in difficult times the directors were able to show lenders that they were pursuing the right strategy and had everything adequately under control. It was clear that the decline in profits was not attributable to the company, but to external factors. The directors could show that the company had good prospects, was the right size and had an optimum cost structure. Production locations did not need to be closed, maintaining employment within the company. A few years later the company was back to its old performance level.

SIGNAL 2: Buffers in a changeable market

Greenhouse horticulture is traditionally a heavily production-oriented sector. Entrepreneurs tend to invest the proceeds of a good crop year in expanding the business and increased scale immediately. The focus is on cost reduction through the highest possible production. As a result buffers are hardly created for difficult times. Yet this is precisely what is required in view of the uncertain market factors. The size and form of the financial buffer must be determined individually for each company. The creation of buffers must be incorporated into adequate risk management. Increasingly entrepreneurs work right on the edge, which brings with it extra financial risks. Every entrepreneur must ask himself how vulnerable he wishes to be in periods of reduced earnings.

Greenhouse horticulture is characterised by a great dependence on external market conditions which are hard to control. Profit and loss can fluctuate from year to year. It is clearly a buyers' market, whereby the price is established outside the control of the suppliers. The large scale production and sales mean that the individual business can hardly build up a distinct position. Because it involves a delicate natural product, there is virtually no opportunity to store products temporarily and market them when the prices are more favourable. The products are prone to diseases and spoilage. The sector has no grip on the supply and must take account of the increasing supply of foreign products. Because the consumer is often unaware of the difference in quality, the market is image-sensitive. News reports from abroad, such as the outbreak of E. Coli in Germany, can be disastrous for sales and pricing in the Netherlands.

The horticulture sector traditionally has no direct communications with the end-consumer about the qualitative and quantitative demand in the market. This means that it is not really possible to match production to demand, with the risk of overproduction and poor pricing. The influence of multiples and distributors has resulted in a lopsided margin split. Retailers are earning margins at the expense of the growers and are using them to polish their 'green' image without having to invest very much themselves. Growers are unable to influence the pricing of their products, as a result of which products are regularly sold at below cost. Traditionally the choice is made to reduce the cost by increasing the number of items or kilograms per square metre. Every cent earned is immediately reinvested in increasing the area under cultivation, without knowing the specific need in the market. Virtually no thought is given to financial buffers in order to absorb potential setbacks. The government is imposing ever greater demands on the growers with regard to food safety and the environment. Despite the subsidy schemes available, these are resulting in an increase in costs, little or none of which can be charged on to the buyers.

One of the biggest cost items is energy. In order to be less dependent on the fluctuations in the energy market, businesses are making extensive use of highly efficient and environmentally friendly heat and power plants (H&PPs). A decline in the spark spread (balance of electricity earnings less gas costs) means that the increased gas price can only be partly absorbed by higher electricity earnings. Electricity prices are at a structurally low level. The earn-back time for H&PPs has become considerably longer. Nonetheless, the H&PP is still a stable factor in uncertain times and thereby contributes to better risk management.

The sector has had to cope with the market conditions outlined above for decades, but the risks have grown in recent years, particularly as a result of the concentration of buyers, the increasing influence of foreign supply, the stricter environmental requirements and the worsened profit margin on H&PPs.

An uncertain market with a delicate product and changeable pricing requires extra attention for risk management and the maintaining of buffers in order to absorb setbacks. More than in previous years this particularly requires cash, since the silent reserves in real estate are no longer always sufficient to obtain additional credit.

Negative example

Overproduction after a good crop year

Company C has had an exceptionally good year. The failure of the harvest in Spain meant that prices in the Netherlands were particularly high. The surplus cash was immediately used to further expand the area under cultivation. Not because this was based on a good investment plan, but because this is what the company has always done, working from the philosophy that increased production leads to a lower cost price, so that greater benefit can be obtained from the pricing. This always worked in the past. But C is not the only business that thinks this way, resulting in substantial surplus production in the next year. The prices collapse and C can hardly service its debts. C was already fully leveraged and therefore has no scope to make the necessary replacement investments.

Positive example

Better grip on pricing

Company D is very successful at growing tomatoes. Instead of increasing scale, it searches for distinctive products and special niches in the market. Special varieties and cultivars are developed for this. The company also uses alternative sales channels and seeks to reach fixed price agreements in advance, as a result of which the dependence on distributors is neutralised as much as possible. Tests are being conducted with switching part of the production to the countries with the biggest buyers. Tomatoes are grown locally with the aid of Dutch suppliers and cultivation expertise, as a result of which a saving can be achieved on shipping costs.

SIGNAL 3: Business is international

Globalisation means that greenhouse horticulture is increasingly international. A large proportion of the turnover consists of exports. On the other hand, the quality of products grown abroad is improving and they are finding it increasingly easy to enter the Dutch market. It is not just business which is international - the markets are too. Achieving even greater bulk production in the Netherlands no longer offers a solution, because enough is being produced abroad already. The Netherlands is no longer at the centre of global greenhouse horticulture. Instead it would be better to invest in specialisation, innovation and marketing. The greenhouse horticulture sector is already working on sustainability, but is not yet able to promote this effectively. Quantity must be replaced with quality. More attention should also be paid to international collaboration or establishing locations abroad.

Greenhouse horticulture has its origins in the mild climate and the low gas price which resulted from the discovery of natural gas in the Netherlands. This made it possible to develop production and expertise and capture a good position in the world market. Technological progress, the development of a free energy market and increasing globalisation mean that the significance of these factors is rapidly diminishing. Improved shipping technologies and large differences in local costs make it worth bringing products grown elsewhere to the Dutch market. As a result cultivation is increasingly shifting to neighbouring countries and production centres on the edge of Europe, in Africa and South America, often created with Dutch expertise. Technical innovations make it increasingly easy to set up a new

greenhouse horticulture business anywhere in the world. New shelf-life technologies make it possible to transport products over ever greater distances without loss of quality. Dutch knowledge is used to breed cultivars. These developments mean that the quantity and quality of the cultivation abroad are increasing. Together with the inherent tendency of growers in the Netherlands to seek to constantly expand their business more and more, this is leading to overcapacity in the market. The limited shelf-life of horticulture products results in supply peaks, resulting in negative pricing.

Globalisation also has a flipside. The greenhouse horticulture sector is still insufficiently able to communicate the added value of its products to consumers. Dutch horticulture products are subject to strict quality requirements with regard to safety and the environment. Although this increases costs, it also offers sophisticated marketing opportunities which are being insufficiently exploited. Despite increasing horticultural production, there is still a downward trend in the use of water, energy and crop protection products. The H&PPs referred to in the first signal are a good example of the sustainable use of energy. They already meet 15 percent of the electricity needs of Dutch households. As long as the consumer cannot see the difference in quality, the Dutch product will remain vulnerable to incidents elsewhere in the world. Even if a disease outbreak has nothing to do with the Dutch market, consumers will immediately become reticent in their purchases.

A new trend is Local for Local, whereby products from the immediate area are offered through a local market. The consumer trusts his own area the most and wants authentic, traditionally grown food, provided that it is not too expensive. This requires an innovative form of production, transportation and selling. When the mass market no longer offers opportunities, the solution will have to be sought in specialisation.

One recent development is the rise of protectionism around the world, whereby local products and local growers are protected. Moving some of the production to the local market of the country concerned can offer a solution to this, particularly if one works with local growers.

Negative example

International competition too strong

Company E was one of the Netherlands' most successful rose growers. For years the focus was entirely on increasing scale. There was no investment in unusual varieties or breeding cultivars. Why should they, since the Netherlands had occupied an unassailable position for years. However, things changed. Partly with the aid of Dutch expertise, a host of production centres were established in Africa and South America with varieties which were suitable for the local climate. The cheap labour and minimal energy costs ensured a low cost price. Improved shipping and shelf-life technologies mean that the roses from these continents can now be sold into the Dutch market at a competitive price. Company E was unable to cope with this competition, and remained loss-making. The capital was drained, and there was no scope for new investments. E had to close down.

Positive example

Focus on innovation and specialisation

Company F recognised the threat posed by mass production of roses abroad in good time. Its view was that there is always demand for top quality roses. These are very expensive to produce and require an extremely capital-intensive investment. At the time when the bulk production of roses still generated sufficient returns, F demolished existing capacity and invested substantially in a completely new set-up. This specialist cultivation requires a great deal of artificial growing light. To enable this, F invested in an H&PP. This generates power, whilst the residual heat can be sold. Under these conditions the company now produces roses of the very highest quality in an environmentally friendly way. Whilst many rose growers were forced to shut, F is now more profitable than ever. Its super-roses are sold throughout Europe under a specific brand, and a separate market has developed for them. F stresses in its marketing that true super quality comes from Holland.

SIGNAL 4: Need for tailored regulations

The greenhouse horticulture sector is confronted with a great deal of regulation. No sector can function properly without regulations. But these must be transparent and consistent, only open to one interpretation and take adequate account of the specific characteristics of the sector. There is room for improvement in terms of tax write-offs on real estate, the turnaround time for subsidy applications and the application of the Wet ketenaansprakelijkheid [Sequential Liability Act].

Regulations are intended to create clarity and legal certainty. Rules which are open to multiple interpretations, which change regularly and which result in uncertainty lead to increased administrative burdens and impede innovation. The examination of this signal deals with three specific examples.

Under section 3.30a of the Wet Inkomstenbelasting 2001 [Income Tax Act 2001] (and section 8 paragraph 6a of the Wet op de vennootschapsbelasting 1969 [Corporation Tax act 1969]) the maximum tax write-off that can be applied to a building in own use is 50 percent of the value according to the Wet waardering onroerende zaken [Real Estate Valuation Act] (WOZ value). For the purposes of the write-off, the elements of the building, the underlying land and the appurtenances are treated as one business asset. There is no write-off on land. Greenhouses are the most important production assets in greenhouse horticulture. For tax purposes, greenhouses and the associated fixtures and fittings are treated as building, which means that they are covered by the write-off limit of 50 percent of the WOZ value. Unlike office buildings and factories, for example, greenhouses have virtually no residual value at the end of their lifespan of 20 years (on average) - demolition is usually the only remaining option. The write-off restriction - whilst justifiable in itself - has unwanted consequences for the greenhouse horticulture sector. At the end of the usage period there is always a backlog write-off because the book value never represents the true value. It is also noteworthy that, depending on the land value which cannot be written off, one company can write off more than another company for an otherwise identical greenhouse (including in terms of value), since the greenhouse and the underlying land are treated as a single business asset. A higher book value for the land at one company will give a higher sum that can be written off for the greenhouse than at the other company which has a lower book value for the land. The difference is not corrected through a higher taxable book profit when the land is sold, since the book profit in both cases is covered by the agricultural tax exemption.

Negative example

Long-term lack of clarity concerning the valuation of greenhouses

The Tax Administration is in discussions with company G about the balance sheet valuation of the greenhouse and the fixtures and fittings. It takes the view that these constitute one asset, so that the write-off restriction also applies to the fixtures and fittings. G would therefore be able to write off less, and therefore have to pay more tax. There is no case law and the discussions with Tax Administration drag on. G is in a state of uncertainty for several years. In the end the final ruling is delivered: there are two types of fixtures and fittings. One part (primary) forms part of the greenhouse, the other part (secondary) does not. This results in a lot of confusion. Hence the heating system consists of one system, in which there is no distinction between primary and secondary parts. G needs to incur additional costs in order nonetheless to be able to include the artificial distinction in the annual accounts. From a business point of view this split is completely meaningless.

Changes to subsidy schemes are often announced at the last minute, as a result of which it is impossible for businesses to modify their investment plans in time. The consequence is that it is no longer possible to make use of the subsidy. It also happens that schemes are unexpectedly suspended or withdrawn, because the budget provided by the government is used up too quickly. Businesses that have just finished drafting their plans but are a day too late will have missed the boat. With many subsidy schemes the business may only enter into obligations with third parties once it has received the ruling. This is the case, for example, with the Ministry of Economic Affairs, Agriculture and Innovation's *Investeren in Energiebesparing* [Investments in Saving Energy] (IRE) scheme. The ministry has up to 13 weeks after the closing date to give a ruling. Only then may the business place an order. Because it often involves specific investments with a long delivery time, there is the risk that the new growing season is missed. The business will then be confronted with the dilemma of investing and missing out on the subsidy, or waiting for the ruling and therefore missing out on a season of saving energy.

Negative example

Subsidy period breached by ministry

The Ministry of Economic Affairs, Agriculture and Innovation has designated the period from 1 April to 13 May 2011 as the submission period for the IRE. Rulings will be issued within 13 weeks.

Company H duly submits a subsidy application within this period. However, the ministry bombards H with all sorts of technical questions about the investment concerned. This extends the 13 week period by the time it takes for the questions to be posed and the ministry to wait for a response. This extension of the period is not specified in the scheme; H simply has to wait for the ministry's decision. H had not allowed for that. However, the subsidy is vital in order to make a return on the investment. The materials have a long delivery time, and must be specially manufactured abroad. Because the ruling comes too late to be ready in time for the growing season, H is forced to abandon the whole project.

The greenhouse horticulture sector works with seasonal products. Use is regularly made of temporary staff in order to handle production peaks. The labour element is an important cost item; the flexible use of staff means that these costs can be kept as low as possible. When a harvest is disappointing, there is no need to continue paying permanent staff. However, businesses are still regularly confronted with retrospective demands under the *Wet Ketenaansprakelijkheid* [Sequential Liability Act] (WKA) because what appeared to be trustworthy employment agencies failed to comply with their obligations.

The businesses seek to protect themselves against these consequences by adopting a whole range of measures, but are nonetheless regularly confronted with retrospective demands. One important initiative in the temporary employment sector is the certification of employment agencies in accordance with the NEN4400-1 standard. Sadly this certification and its assessment is not yet watertight - there is no certainty whatsoever that certified labour is indemnified against retrospective demands. The use of employment agencies therefore always remains a risk.

Negative example

Liability for employment agencies

Lawmakers specifically created the WKA in order to prevent cowboy employment agencies from evading taxes and social security premiums. This can have an unintended negative effect on businesses which act entirely in good faith. Company I is one such business. I has been working with an established ABU-certified employment agency for years. The rates are in line with the market. I checks itself that every worker has a genuine and valid passport and any work permit. Where necessary, I has a check carried out by the aliens police. I also maintains detailed shadow payroll records, regularly asks the Tax Administration for proof of payment behaviour and pays a percentage of the invoices directly to the Tax Administration. An inspection by the Tax Administration reveals that the employment agency has nonetheless failed to comply with all the rules. As a result of the WKA I is confronted with substantial retrospective demands for the previous years. Although I has done everything possible, it is still punished for the mistakes of another company.

SIGNAL 5: Accountant as critical adviser

From their role in preparing annual accounts, accountants in the greenhouse horticulture sector act as advisers in the areas of finance, administration and tax. In this role they must also adopt a position as independent and critical professionals, governed by the fundamental principles set out in the Verordening Gedragscode voor accountants [Accountants' code of conduct Order] (VGC). Integrity and objectivity are thereby of primary importance for obvious reasons. The accountant can serve as a critical sounding board for the entrepreneur if he presents an ambitious investment plan, say no to an unfeasible investment or raise the issues of the future of the business where necessary. The accountant must have specialist knowledge of the sector in order to be able to understand and assess the advice from other experts such as cultivation, energy or credit advisers. Greenhouse horticulture is not a sector which an accountant can just pick up overnight.

The changeable pricing in recent years, increasing internationalisation and the ever greater investment demands mean that business closures are becoming more common. Companies are ending up under their bank's special lending supervision. Up to now banks have often preferred to keep

loss-making businesses going where possible. But the first online auction of horticulture businesses took place in September 2011. In his role as adviser, the accountant is expected to continue to support the entrepreneur in these difficult times. It is hard for an entrepreneur to acknowledge that it is sometimes better to shut down his business than to continue accruing losses for years. It requires special skills on the part of the accountant to create clarity in this situation and remain objective, without losing the entrepreneur's trust. He will thereby have to work closely with all the parties involved, particularly the bank. The moment when a business should close can never be determined precisely. Sometimes companies manage to identify the core of the problem after struggling on for a few years, as a result of which a return to profitability becomes possible. But it can also be the case that the business ultimately has to close and that the entrepreneur then really will have lost everything.

The accountant must also be prepared to adopt a position as an independent professional when a healthy business is considering a new investment, by assessing the advice of other experts and asking critical questions.

Negative example

Postponing business closure

Accountant V is the accountant for company J, which focuses on growing perennial flowers. J decides to plant a new crop with a five year cultivation period. This investment includes an H&PP which supplies heat to the neighbours, and an expansion of the lighting system. The plan is fully costed by an energy adviser and by V by means trading and liquidity forecasts. In view of the presence of sufficient capital, the risks are rated as being low. There is a loss in the first year which J can fully explain. However, production continues to struggle. V advises J to enter into discussions with the cultivation adviser who drew up the forecasts, but does not carry out his own critical analysis. In the second year there is increasing pressure on the company's liquidity. A loan can be obtained under the Besluit bijstandverlening zelfstandigen [Decree on assistance for independent businesses] (BBZ loan) on the basis of a recalculated forecast from the cultivation adviser, who fully stands by his figures. The production is again not achieved in the third year. Things are ultimately so bad that the business is sold and bankruptcy looms, with all the associated emotions. There were two points in the process when V could have raised the question of the survival of the

business: when assessing the forecasts and when applying for the BBZ loan. Instead of carrying out this review, the decision was made to press on at any cost, with all the resultant consequences.

Positive example

Advising on the sale of the business

Accountant W is the accountant for the loss-making company K. The company has been making a loss for three years now, including the two years when the sector was in crisis. The belief that selling prices will recover is more a leap of faith. Realistic production assumptions are made in the forecast, but the anticipated price is repeatedly not achieved. The cashflow is only positive because of the relatively low level of debt servicing. Partly as a result of intensive discussions by W with K, the bank and the family the company is privately put up for sale. K and his father (founder of the company) maintain their focus on continuing cultivation, despite the fact that the cost of the products is too high. It is distressing that the company has lost so much value in such a short space of time, which is why both want to invest more of their own capital. Unexpectedly, a reasonable offer is received for the company, which enables K to dispose of his business debt-free. This is still felt to be a positive outcome. At last there is an alternative. The company has now been sold and calm has been restored. K has found a new job somewhere else.

Greenhouse horticulture is a sector which an accountant cannot just pick up overnight. In order to be able to act as a credible adviser, the accountant will have to have sufficient professional knowledge and experience in the sector. He will have to be able to rise above the details and maintain an overview. This means that he must be able to understand and assess the advice from other experts. His knowledge and experience in the area of administrative organisation and auditing can be very useful in this. It is important that the accountant remains informed about all developments within his client's business and is thereby prepared to probe. The entrepreneur who is growing towards a more complex business structure will have to receive timely support on the aspects where he himself has shortcomings. The accountant must grow along with his client and must be able to identify the weaknesses in his business, so that the entrepreneur can do what he is best at: running a business.

Negative example

Unutilised subsidy opportunities

Accountant X is the accountant for company L, which prefers to use external consultants. L has invested in a new greenhouse and leaves the subsidy application entirely to an external subsidy consultancy. X is not consulted on this. Only when he is preparing the annual accounts and the tax return does X realise that L has missed out on a lot of money because the consultancy failed to exploit all the subsidy opportunities. X does his best, but the missed opportunities cannot be rectified retrospectively. X would probably have been able to raise the alarm sooner if he had maintained closer contacts with his client.

Positive example

Retrospective energy settlement

Accountant Y is the accountant for company M, which makes use of an H&PP and lighting systems. The plant is used to generate power for the lighting and to feed into the electricity network. The heat produced is used to heat the greenhouse and partly supplied to the neighbours. When preparing the annual accounts Y draws up a summary of the energy production. An analytical review shows that the company has been charged for too much energy and that the settlement with the neighbours is incomplete. Because Y is able to provide ample support for his calculation, retrospective settlement takes place, which yields a lot of cash for M.

04 | Responses from stakeholders

Three stakeholders in the sector were requested to respond; their comments have been included in their entirety in the Dutch public management letter. What follows is a brief summary.

Productschap Tuinbouw [Product Board for Horticulture] has indicated that it recognizes and endorses the signals, especially the call for specialisation, innovation and marketing. The Board thinks it important that the NBA has taken the initiative to monitor the greenhouse horticulture sector. Since 2007 the Board facilitates the programme Flowers and Food to strengthen the supply chain in the sector. Adequate riskmanagement is also an important issue for the sector. Because of the complex market situation businesses often have not enough time to spend more interest in research and innovation. The accountant can play a significant role in this by acting as a critical sounding board and sparringpartner. The Board finds it also important that government does not forget the role of SME's in the Top Sector policy programme.

LTO Noord Glaskracht [Dutch Organisation for Agriculture and Greenhouse Horticulture North] fully endorses the public management letter. The NBA has identified risks and opportunities, important for businesses, government and auditors. LTO being an organisation for businesses in the greenhouse horticulture sector will support the realization of the recommendations in the managementletter.

Rabobank Zuid-Holland Midden underlines the choice for the sector, because it is a SME sector par excellence. It is a dynamic, but also vulnerable sector that plays an important role in the Dutch economy. The way the NBA describes the sector is consistent with several sector studies of Rabobank. Rabobank endorses the fact that craftsmanship is not enough to survive and adds that knowledge of the market is essential. Buffers in an changeable market are imperative. It is a challenge for growers to give concrete form to specialisation, innovation and marketing. Rabobank stresses the importance of increasing the possibility for the carry back and carry forward of fiscal losses. Finally, Rabobank welcomes the signal for accountants, because they play an important role in the sector.

Colofon

Sharing Knowledge in Greenhouse Horticulture

In this public management letter the NBA is presenting five signals and recommendations to stakeholders and interested parties in the greenhouse horticulture SME sector. Greenhouse horticulture is the fifth sector which has been selected by the NBA's Identification Board for the Sharing Knowledge programme. A working group of SME accountants in the sector nominated by De Taak gathered anonymised findings and discussed them. The Identification Board then applied a social assessment to the signals. Sector organisations and other stakeholders in the sector were willing to respond in writing to the public management letter. Coordination was provided by the Sharing Knowledge programme team.

More information

A public management letter is one of the publications from the Sharing Knowledge programme. The NBA previously published public management letters about Insurance (June 2010), Long-term Care (November 2010) and Commercial Property (June 2011), as well as an open letter about Pensions (February 2011). All publications are public and are intended for a broad audience. For more information about the content of this public management letter please contact M.J.P. Admiraal RA, tel. 020-3010319 or m.admiraal@nba.nl. More information about the Sharing Knowledge programme can be found on the NBA's website.

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2 De TAAK is an association of independent firms of accountants and auditors. The association is heavily represented in the greenhouse horticulture sector and is a point of contact for various organisations such as the Tax Administration, banks and the Chamber of Commerce.

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