

To Increase or Not to Increase?



By Roger C. Styer

Wow, this has been a crazy month or so! Since Hurricane Katrina devastated much of the Gulf Coast, we have been bombarded with pictures of the devastation, misery and relief efforts. Unless you were actually in the areas of devastation, it is hard to fully comprehend the power of nature, destruction, loss of life and the humongous task of rebuilding. But the reality of Katrina hit home to all of us in the quick and large rise in gasoline and diesel prices, didn't it?

Who would have ever thought that gas prices would go above \$3 per gallon in Chicago before Katrina hit? Can you remember when everybody was screaming when gas prices hit \$2 per gallon and oil hit \$50 a barrel? Those were supposed to be sacred barriers beyond which experts felt we would not go, or if we did, the economy would tank. Well, we are way beyond that now, and we are still here.

But this huge increase in fuel costs, both gasoline and natural gas, may force some of you out of business within the next year. Others will keep skating on thin ice, hoping that energy costs will get back to normal so their companies can show a profit someday. You know, that is the same kind of thinking that got Delta, Northwest, United and US Air into trouble and bankruptcy. Once the sacred barriers have been breached, there really is no way back to the way things used to be. You really think gas will get back to \$2 a gallon? Dream on! If you think natural gas will get back to reasonable prices, think again. With more power plants and homes using natural gas, demand will continue to keep prices up. And a lack of competition for extracting and piping natural gas will ensure that prices stay as high as we will tolerate.

Current Situation

For the upcoming spring season, there are a few hurdles all growing operations have to jump:

Higher heating costs. I have clients already asking how cool they can grow poinsettias without affecting quality. If you are using natural gas, you have to decide if you want to lock in the price or wait for a lower one. Will you delay opening up your greenhouses to save on fuel, lower your growing temperatures or invest in energy-saving measures such as thermal curtains, insulation and

better thermostats? Start doing something about it now, so you are ready when spring starts.

Higher gasoline and diesel prices. If you ship any of your product by truck, you know how much more you are spending on gasoline and diesel. Is this extra cost included in your prices, especially to far-flung stores? And what about those fuel surcharges you keep seeing on many of your invoices for plastic, peat and other supplies? Did Fed Ex, UPS and other carriers tack on fuel surcharges or increase their prices? You bet they did!

Higher costs for plastic, peat moss and other supplies. You probably have seen higher quotes for many essential supplies, particularly for those made from petroleum or that are shipped by truck. The added costs of producing and shipping these items are being passed on to you, whether you like it or not. You can shop around, but the situation is the same for everybody.

How far can you squeeze your production costs when many of your raw materials are increasing in price, not to mention labor costs?

Cutting production costs. How many of you really know your production costs for each item you produce? Better start calculating! Over the past few years, growers have been cutting their costs by reducing labor, increasing automation, buying smarter and cheaper, reducing shrink and selling more product. But how far can you squeeze your production costs when many of your raw materials are increasing in price, not to mention labor costs?

Prices

So, you have already squeezed your production costs as much as possible, locked in your natural gas price, got the best quotes from your

vendors, and still, you can't see how you are going to make money this next year. (Wishing and hoping will not cut it!) It seems most growers are reluctant to increase their prices, whether to box stores or their own retail. Why? Because you are afraid that the box stores will give your business to someone else or the retail customers will shop elsewhere. And the few times you did try to raise prices to your box store customers, they laughed and said no way.

All of the boxes keep building more stores, which need more product. But there are not that many more new growing operations being built, especially 5 acres or larger. Yes, some large operations are expanding and getting bigger. But overall, there are not many operations that can service box stores on a timely basis with quality product and service. But many growers are still afraid of losing business.

Well, let's get real! You need to negotiate a price increase with your box store customers now. Understand your production costs, overhead and the profit margin you need before even approaching your customers. Then go meet with them and tell them what you need to keep doing business with them. For most of you, this increase will be in the 5- to 10-percent range across the board, not just on a few items. Don't try for a fuel surcharge; go for a price increase!

The box store buyers are compensated on how well they keep their purchase costs down while obtaining quality products. They may not care that you go out of business! But you better be ready to justify any price increases. You really only have three choices: 1) Keep prices the same and go out of business sooner than you want, 2) walk away from some business because no deal could be reached, or 3) get the price you want and need. And if you deal mostly with retail customers, I can safely say your customers will not blink twice if you raise prices 5-10 percent next spring, providing that your quality, selection and service are the same or better.

So, back to my original question — To increase or not to increase prices? What will it be for you this coming year? **GPN**

Roger Styer is president of Styer's Horticultural Consulting, Inc., Batavia, Ill. He can be reached by phone at (630) 208-0542 or E-mail at carleton@voyager.net.