GROWERTALKS

Cover Story

5/1/2019

The Point of Raising Prices

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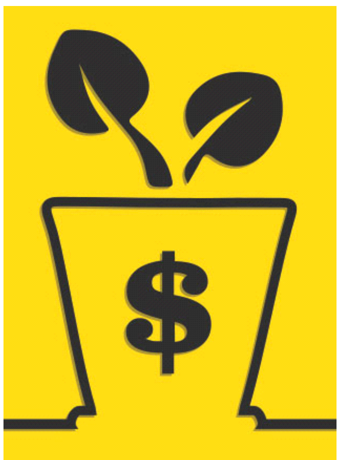

"The laws of economics are coming into play in our industry because it's down to the survival of the fittest," said Kube Pak's Bill Swanekamp. "People who are making the best choices and decisions are surviving."

What Bill is referring to is the state of churn that North America's culture and economy has experienced during the last 10 years, and our industry is now feeling the effects of all of this change. Mandatory health care, transportation regulations, a shrinking labor force and increases in wages have all happened at once, making business owners feel like they're being bombarded from all sides at one primary target: their bottom line.

One can argue that these changes will actually be good in the long run: offering health care and higher pay means you'll attract better employees; new transportation laws will make the roads safer and trucking companies more accountable; and a lack of seasonal workers will (hopefully) move the needle to (finally) getting a functioning guestworker program.

Regardless, these new costs are a new reality you have to deal with and many operations have taken to implementing yearly price increases to mitigate much of these costs. For a business such as yours with very thin margins, it makes the difference in not only sticking around to see next year, but to re-invest in your operation for the future.

Slow to ask for more.

Historically, our industry has been reluctant to raise prices on plants—why is this mindset so baked in and how do we change it? Joche Smith (Costa Farms, Homestead, Florida) thinks there are a number of factors that have contributed to this.

"Sometimes, I think we put artificial feelings on what a price should be in the market," he explained. "We want to be competitive and we want to make sure we're not pushing retailers too much, but I think a lot of times we've kept them too low."

Also, the nature of our product certainly doesn't allow for a lot of wiggle room when it comes to negotiating price, which could be an obstacle for many growers.

"It's hard for some of us to stand our ground," admitted Joche. "When you have live goods sitting on the dock or on the farms waiting to move, and you're faced with: will I take 90 cents for this product or will I hold out for a dollar …?

In many cases, you can’t afford the risk of holding out for a dollar, even though knowing full well that’s what you need to do.”

Stan Vander Waal, owner of Rainbow Greenhouses in British Columbia, thinks the type of costs growers are faced with have been another reason why many growers are behind the price increase curve.

“Most greenhouse growers are production-oriented people—they’re out there trying to get the most out of the greenhouse, the most per square foot, how many more crops they can get with crop turns,” said Stan. “And there’s the fear of, ‘Well, what happens if I don’t get this order? What happens if I lose the business?’ So we kind of put ourselves in the corner and we don’t get anywhere with regards to pricing where we really need to be to create a sustainable business model.”

Price advice.

Give the reasons why and back them up with facts

All four of the growers I spoke with for this article have raised their prices every year for the last few years. Bill said that back when the recession hit in 2008-09, asking customers to pay more wasn’t an entertaining thought (he said Kube Pak even lowered their prices during that time). But now, for all of the reasons mentioned before, growers are finding that it’s unrealistic NOT to increase their prices.

Bill provided this example: “The biggest thing for us [this past year] has been road diesel, labor for truck drivers and the wages you have to pay, and the new sick leave act [in New Jersey]. So right there, just in that number alone, we have to raise our prices enough to cover $100,000. You add up all your anticipated increases and expenses, whether it be health insurance or liability, let’s say it ends up being $250,000. How many units are you going to produce next year? Say it’s a million. Everything has to go up a quarter.”

Kube Pak has been increasing prices about 2% to 3% every year for the last few years and it hasn’t been too difficult to get his customers on board. The ones who do balk, Bill said, “We basically say, ‘This is what we need to make a living, to stay in business.’ And we have to have enough confidence in the quality of our product and service to command that price.”

Costa Farms tells customers, which range from big boxes to interiorscape companies, when prices do increase. But the most important part isn’t telling them how much, but why.

“Our freight expense was way above budget and way more than we predicted, so we went to all of our retail partners and everybody helped us,” said Joche. “But I think a lot of it had to do with presenting facts. I don’t think we do ourselves any favors when we’re going in to ask for price increases without facts. If you just go in and rely on your relationship and are vague or general, that’s the wrong way to do it.

“We speak about exactly what our labor rates are, exactly where our fertilizer and pot rates are. Then I think it’s very beneficial to talk to your customers about what you’re doing to mitigate those costs. We never expect our customers to take on all of our cost increases, so if our costs have gone up 5%, we expect to do things in our operation to mitigate part of that. That’s our responsibility, but sometimes it gets to the point where it’s too much.”

Since the cost of goods are going up everywhere (see sidebar), it shouldn’t come as a huge shock to your customers that you’re feeling the pinch just as much as they are. Using this information can also help you have the pricing conversation.

“If things like increases in gas or interest rates are real and they’re public information, to me, those are foundational when it comes down to laying the need of a price increase before your buyer,” said Stan. “The buyer cannot feel that this is just a price grab by Stan from Rainbow who’s going to come in there and try to raise his prices again. They have to feel that this is necessary and we have to justify it. We have plenty of things that we can call out that clearly identifies that costs are going up."

Quality is key

Whether you would admit it out loud or not, you know if your product passes muster. And if it has a pattern of issues (complaints, quality control claims, etc.), it'll be that much harder to ask your customers to pay more for it. So make sure your quality and the services you provide represent the value you're charging.

"Price is only a small portion of the pie—service and quality are two other major portions, especially today," said Stan. "At the end of the day, if you can make sure that relative quality you need to provide for that particular customer is right, the next most important thing is all the other things you do when you're sitting in front of that buyer."

Andy Ambrosio of Wenke Greenhouses in Kalamazoo, Michigan said it plainly: "Quality is a given now. Our goal is to try to make it easier for the buyers by reducing their ordering time and transaction costs."

Be creative and innovative

Stand back and look at your sales area—what is your customers' threshold? And what is your competition doing? Once you have a full understanding of your market, you can look for opportunities that can help make your case.

"It's up to each of us to innovate; it's harder to go and get a price increase on a 6-pack begonia that everybody else in the country is growing," said Joche. "And there's a benchmark—there's a market price that's been established. It's harder to get a better return on something like that than it is than if you're introducing new items. And I know it's not easy, but the more you get out there, and you can bring new things—whether it's a new product or packaging or way to connect with the customer—you can bring more value to the equation, and generally, you can get a better price for your items."

"It's very hard to go to a buyer on exactly the same item and simply say I need 5% more," said Stan. "But it is generally easier to get next-level pricing out of a newer item than it is out of an existing item."

And when it comes to commodities (like poinsettias and mums, for instance), grow what you need to, but also look at how you can improve upon the final package. Or look for new products to complement those commodities.

"Every industry goes through a commoditization and they try to re-invent the product and see what they can do to make it better or more profitable by repackaging it," Andy said. "We try to work with a lot of the breeders when they do their spring presentations on what's new and the very first question I ask is, 'It's nice—what do you have for fall?'

"It's the shoulder seasons that we're trying to figure out what will it take for consumers to take the money out of their wallets to buy something that they perceive to be a good value. And mums are ubiquitous. We grow a lot of them, but if we think we can sell 80,000, we're not going to gamble on 90,000. That's a fool's errand."

Don't aim to be the cheapest

The easiest way to get quick sales is to have the lowest prices, but it's not sustainable. If you price yourself where you have no margin, there will be no capital available for overhead or other surprise expenses (your transplanter breaks down in the middle of March—how do you pay for it?). In the end, there's no profit. Which could also mean the end of your business.

"It's too easy for us to get in the mindset of saying, 'I'm going to see who's cheaper than we are and that's where I have to set my pricing,'" said Stan. "If you want to be a price follower, well, good luck to you," he laughs, but then he turns serious. "It's critical to evaluate and challenge your own product line and the service you offer and ask, 'Can I make something other than price a strong point for my buyer when I present?' If it's all about price, then there's no future."

"In our case, we want to be competitively priced, for sure, but we've never gone into it wanting to be the cheapest guy out there," stated Joche. "Obviously, if you're the lowest cost, you better be really, really good at it. And if that's the only way you're going to distinguish yourself from the competition, you're probably going to deal with razor-sharp margins and I just don't think that's a sustainable, competitive advantage."

For better or worse, our industry is changing—with new problems, new breeding, new products, new markets, new consumers. Some chose to ignore these changes or made decisions where they didn't survive to tell their tales; some have jumped ship for a completely different crop segment. Those who remain are keeping a close eye on how horticulture is evolving and toiling away to make sure they remain a part of it.

"There are a number of players now that are converting greenhouse structures over to growing marijuana, to growing hemp, and that's a direct reflection on looking for a crop that has a higher perceived margin than what annuals have," said Andy. "There, you're bypassing our industry altogether. And for some people, it's a wise decision."

"We are in a very interesting period of time right now because I've never seen so many growers start to crumble," said Bill, pensively. "I see people switching out of our standard business—instead of selling bedding plants, they're growing cannabis or hemp. They're not making money in their normal business model, so they're moving to another model with the hope that they can make some money."

"It's so much harder [to run a growing business now than compared to 20 years ago]. It used to be so easy to make money, and today, we work every day, hard, just to turn a profit." **GT**

Other industries have already been raising their prices, some almost every year.
According to The Wall Street Journal, companies in the U.S. have been raising prices on everything from plane tickets to paint, passing on to their customers higher costs for fuel, metal and food after years of low inflation.
Price increases on some popular fast-food items (third quarter 2018, change from the previous year):

- McDonald's Big Mac: 4.7%
- Chipotle steak burrito: 4.4%
- Jimmy John's turkey sandwich: 6%
- Panda Express Orange Chicken: 2.8%
- Starbucks 16-oz. Grande regular coffee: 8.9%
- Domino's large Ultimate Pepperoni Pizza: 5.9%

Sources: Technomic; The Wall Street Journal

Other recent cost-of-goods increases:

- Airfare–The cost of fuel is up 40% within just one year
- Trucking–Up 7%
- Aluminum–Up 8%
- Steel–Up 38%
- Apple MacBook Air–Up 20%
- Sherwin-Williams paint–Up 6%

Source: The Wall Street Journal