GROWERTALKS

Growers Talk Business

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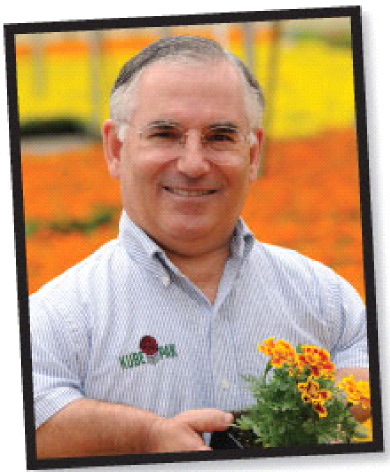
Supply vs. Demand

Bill Swanekamp



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Do you remember the first time you heard about and understood the economic concept of supply vs. demand? Most of us heard about it when we were kids and we may have heard our parents talk about it. But, really, we probably didn't grasp the significance of it until we studied it in college.

I remember my college professor talking about this topic and how he illustrated it with his forearms. He would hold his arms up in front of his body with his arms bent at the elbows and demonstrate the effects of supply and demand by moving either his right arm up or his left arm down. He could do this so quickly that it was quite entertaining watching him move his arms around like a cheerleader as he quizzed us on the impact of various scenarios of supply and demand.

We just finished up our spring season and I have to say it's one for the record books. Although we had a lot of rain, it seemed that the demand for finished bedding plants, perennials and hanging baskets was insatiable—a little bit like a chocolate lover having free reign in the Hershey Store.

The call from our customers for more, more and more never ended. At first, I thought maybe we'd done a super job growing beautiful plants. Not quite. Yes, we had beautiful plants, but they were comparable with previous year's plants.

No, something had changed and it had a dramatic effect on our demand. After some discussion with our family and customers, we realized that a number of growers in our area had either gone out of business or switched to hemp or marijuana production. Now, in the grand scheme of things, these weren't large greenhouses, but they represented about 10 acres of production in our area.

Although, the percentage of greenhouse space that was removed from production was small, the impact on us was great. New customers called every day and our inventory rolled out the door as fast as we could ship it. Not only us, but other growers in the area experienced the same increase in demand.

What's the lesson? Even a small decrease in supply can have a huge impact on demand. Yes, we couldn't deliver the plants to our customers fast enough. In the past, we always prided ourselves in our ability to delivery our product fairly close to the date the customer requested. This year, that wasn't the case. This was the first year in maybe 35 years that we couldn't deliver all the orders within the week it was requested. How did that go over? Not well. We were working as hard as we could every day and still couldn't get the product out. We did our best to explain this to our customers, but guess what? They didn't care. They wanted their plants.

This is the dichotomy of a strong demand and not enough supply. We were very happy to sell the plants ASAP, but the customers weren't happy if they didn't get the plants when they wanted them.

What's the other lesson we learned? When you have a demand that outstrips the supply, pricing is almost not an issue. We raised our finished pricing for 2019 by about 2% and no one complained. We should have raised it by 5%—that would have been a closer reflection of the increase in our true costs. How do we know that we haven't raised our prices enough over the past decade? Just look at the number of greenhouses going out of business or converting their production to hemp or marijuana. Why are they doing this? I believe they want to make enough money to sustain themselves and get a decent return on their investment. That hasn't been happening in the past.

What should we do for 2020 spring pricing? We need to continue to raise our prices every year until we get back to a reasonable return on investment. I've mentioned this point in previous articles—each year FedEx and UPS increase their pricing between 4% and 5%. They don't apologize for this nor do they ask. They just do it. What do they know that we don't?

One is the CPI (Consumer Price Index). This is a number that the federal government calculates each year to figure out where the overall U.S. economy is going. It also factors in many wage negotiations and price increases with large companies. Last year the CPI was 1.9%; that means if you didn't raise your prices by around 2% you were going to make less profit than the year before.

Go back to the FedEx and UPS example: since they raised their prices for 2019 by 4.5% and the CPI was 2%, their real net was only 3%. That's a modest increase and it should be an example of what we should do as an industry. Modestly raise our prices each year, but do it every year. **GT**

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