GROWERTALKS

Growers Talk Production

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Hard Times for Hardgoods

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I had the fantastic opportunity to listen to a talk presented by Dr. Charlie Hall just a few weeks ago. Dr. Hall is an economics professor from Texas A&M who specializes in horticulture economics, benchmarking and the industry's situational outlook. With that description being in his bio, coupled with our current economic climate, you know why I'm always so interested in listening.

I really enjoy Dr. Hall, as his talks are fun, upbeat and filled with informative slides and graphs that beckon me to take pictures to show people back at the office. The other reason I enjoy his talks is that they solidify why I feel queasy in the stomach when looking at the state of our current market. For every up, there is a down.

This year has been like riding an old wooden roller coaster blindfolded! The anticipation builds toward another record spring with the rhythmic clacking and jerking pressing the industry upwards. Meanwhile, Dr. Hall is in the front car facing backwards unable to see when the peak is going to happen, but constantly explaining how high we are and where we could be going by extrapolating historical data. As important as it is to know where the industry has been, it still doesn't help the queasy feeling of pressing forward to what could be a monumental precipice. As with any unknown, the only way to shake the uneasy feeling is to be prepared.

This year has definitely shown us where the weak links in our industry are. The international supply chain, which took decades to establish and perfect, has been broken. The fragile dance of on-hand supply vs. demand is out of balance. Our company will be changing its attitude toward what's acceptable for on-hand stock of hardgood supplies.

Changing policies will not help the current problem of today's shortage; however, it could reduce risk for future shortages. Dr. Hall has data that shows demand remaining high though 2023 with no quick fix for supply chain woes. Everything must be taken into consideration.

As an example, in the fertilizer shortage saga, I recently read the company Yara (an Oslo-based firm), along with CF Industries (a domestic fertilizer company), is reducing the production of Ammonium Nitrate due to the rising cost of natural gas. Will this exacerbate problems, further driving fertilizer pricing even higher?

My brain isn't wise enough for this equation. I'll simply buy up more fertilizer now to have on hand just in case. The cost won't be going down anytime soon with inflation on the rise.

During Dr. Hall's talk, he explained, "The cost of inputs for growers increased by 8% this year and is expected to increase by 3% to 5% next year. This means growers should be raising their prices by at least 11% just to break even." That's a national average increase on inputs alone and doesn't take into account the substantial raising of minimum wage in Florida from $8.65 to $15.00. That's a 73.4% increase in just five years.

I've taken multiple calls from concerned customers asking two things. First, is the speculative price of wholesale finished product going to continue to rise through the end of the year? And, second, are you going to honor your contract pricing set from last summer 2021 for spring 2022?

The second answer is easy. Our company will honor those contract prices set for spring 2022. However, It's important for spring buyers to understand every increase we wholesale growers see now on inputs for contracted spring items—which aren't yet potted—directly eats into the margin of that finished plant to the extent possible of being in the red. Growers obviously try and pad the pricing above expected margin a little to account for shrinkage and some possible price increases. But nobody could guess a 35% price increase in pots over six months.

This is a single example. Every allocated input has increased—pots, soil, liners, fertilizer, boxing paper goods and dunnage. With this, prices will, of course, continue to rise in the speculative market unless we run into an unforeseen event greatly reducing demand. The big retail winners this spring will be those companies who established contracts with wholesale growers not willing to default on growing product due to low or non-existent margins.

Every year should be evaluated—both positive and negative—and have great learning moments that change the way we do business. I'm sure many wholesale growers in the future will be including some kind of renegotiation or hardship clause in their growing contracts that would encompass substantial unforeseen increases, such as those recently seen in hardgoods costs.

2021 hasn't been near the heart-pounding thriller 2020 was, but it certainly hasn't disappointed in stress levels. We'll all be working hard through the winter to ensure spring has the best possible outcome. I still believe plants will end up in short supply by this spring and the prices will be higher than ever. However, our industry has been blessed with a ravenous market who so far hasn't flinched at the rising cost of finished product. **GT**

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