

GROWERTALKS

Acres & Acres

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“Keep Your Powder Dry”

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The old axiom, attributed to 16th century English General Oliver Cromwell, referred specifically to the gunpowder carried by his troops, but today the saying broadly means “preserve your resources.”

I’ve heard Anna Ball say it often over the years; she credits her father, Carl Ball with using the term to reflect being conservative with one’s financial resources—basically, making sure you’ve got some savings set aside for a rainy day.

It’s a good old expression to dig out in this time of prosperity ... for most of you, anyway; I always remind myself that some growers are still having a tough time of it. But for those of you who are having another record or near-record spring, the message is this: Don’t blow it! The temptation may be there to finally make that big upgrade or expansion or what-have-you. Now, it

may be fully justified—you know better than I would. I’m just encouraging some caution as you consider how to handle the windfall you may have experienced this spring.

This may be totally unnecessary on my part, of course. First of all, what may look on the outside like extra profits may, in fact, already be consumed by additional expenses. I was reminded of that recently by a Tennessee grower who said of his successful spring, “I wish it was all profits. That’s been the real negative of 2021: costs are escalating at an alarming rate. Labor and trucking in particular are taking a big bite out of our profit margins.”

Dr. Charlie Hall, professor and the Ellison Chair in International Floriculture at Texas A&M, is nodding his pate as he reads this. Charlie has been compiling an annual “Index of Prices Paid by Growers” since 2017. It’s part of his Your Market Metrics platform*. He released the 2021 edition in March. In it he wrote, “Even in situations where industry firms have increased prices for their plants, the costs of their production inputs have risen more quickly. Thus, margins for green industry firms are being ‘squeezed’ relative to what they used to be ...”

In his Index, Charlie looked at the real prices paid by leading growers for 10 categories of key inputs over multiple years. His conclusion? “The overall cost of producing nursery and greenhouse crops is almost 32% higher in 2020 than it was in 2007, with labor experiencing the largest increase (46.3% higher in 2020).”

Charlie admits in his research that grower margins improved in 2020, thanks to an increase in finished plant prices. “However,” he adds, “it is anticipated that input costs in 2021 will rise by 5.24% as a result of the strong demand from growers in the industry who are looking to increase their tradeable assets (inventory).”

Based on his research and conversations with experts in the various fields, Charlie reckons the leading input cost increases will be for containers and other plastics (+9%), freight and trucking (+8%), propagative materials (+6%), fertilizers (+6%), and fuel and energy (+6%). Labor and the remaining inputs are anticipated to increase in the neighborhood of 3%. *For more, and to learn how to participate, go to YourMarketMetrics.com.

To make matters even more grim, despite his best statistical efforts, Charlie can't factor into his work unexpected disasters like COVID, the Texas freeze, the Colonial Pipeline hack, the lack of interested workers (at any price) and so forth. In other words, it could be worse than he says. In addition, he says prices have escalated for certain inputs since he developed his forecast three months ago, so the actual input inflation this year may be closer to 8% across the board.

Which is why we're talking about your powder. If you've been fortunate enough to have an excellent and profitable spring or two, and you've got some extra powder in the bank, now is the time to evaluate where to best put it so you can deploy it to help reduce those margin pressures. Perhaps technology that reduces your labor needs or increases output per employee. Maybe an irrigation system update to better control runoff and save on fertilizer. Or a new boiler or energy curtain to cut your energy use. Or perhaps you keep your powder in the bank until you can more clearly see where to invest for the most long-term good for your business.

I'll conclude on a positive note: Nobody thought 2021 was going to rival 2020's success and for many of you it has. With all those new and enthusiastic gardeners out there still concerned about returning to public life, maybe 2022 will make it three great seasons in a row. **GT**