



Plant Pricing, Production and Purchasing

May 2011

With the beginning of the new year, nurseries have found themselves in the middle of a new operational dilemma that is buttressed by the economic turbulence, fuel pricing, and rising material cost on one side, and supplying contractors with fair market value pricing, and quantity, as well as quality material on the other.

As anyone may have expected, the economic turbulence has forced quite a few number of nurseries into insolvency with others on their coattails. Rising petroleum costs have translated into rising material costs, i.e. fertilizer, herbicides, lumber, plastics, etc and the need for the introduction of freight, or fuel surcharges. However, the market has not allowed for nurseries to pass those increasing material costs on onto their customers. In fact, plant material unit costs have dropped to a thirty year low due to market over-saturation, nursery liquidations, the need for nurseries to maintain their customer base, and their need to prepare for the next growing season(s).

In order to reduce overhead and stay lean, nurseries have had to downsize and lower their payroll, hold off on plant maintenance, and lower production. It is not uncommon these days for nurseries to stretch their watering cycles, delay fertilizing schedules (or hold off altogether), curtail pruning, but most damaging... has been to halt production. The ripple effect of halting production will be felt for the next half a decade. The outcome may be questionable quality, overgrown, and just adequately maintained, plants.

As nurseries sell out of one size plant material without anything to back it up, it will take them and extra year, at least, for salable ones to become available.

In other words, if one wants to plant a 15 gallon plant, a 5 gallon plant is typically required. If one sells out of their entire stock of 1 and 5 gallon (downsizing remember) and has none for production one will have to wait either for the next group to grow to size, trade them in, or purchase them from another nursery. These latter two options, for many, are not really options. That same ripple effect has affected them as well and we find that we are both out of the same item or that their cost would make our respective sales, improbable. So one is left with the former option which is to wait for the liners to plant to 1's, 1's to plant to 5's, and then 5's to plant into 15's. Depending on the season, that may amount to a minimum of three years till a crop of 15's is available for sales.

Another issue nurseries have had to contend with is the amount of time a plant sits on the ground. Any Nurseryman will tell you that the pricing of the plant material is in direct correlation to how long it takes to grow that plant. The harder it is to grow, or the longer it takes to get to salable size, the higher the price. A salable plant that has not sold not only becomes a liability; it also becomes an inhibitor by preventing other plant stock from growing on the same ground currently occupied by that plant. As sales slowed, the material sitting on the ground became root-bound and overgrown in that container. While some Landscape Architects and homeowners prefer large, overgrown material, and do not mind girdling roots, others prefer younger, well rooted stock. Again, this cost cannot be passed on, on to the customer as the price of the plant would exceed market price.



What this will mean to contractors and developers:

The inherent pitfall of this model is obvious to landscape professional that survived previous economic upheavals. Contractors have been bidding projects at the lowest material quoted during the current economic situation; when that vendor runs out of stock of that material, goes out of business, or raises their pricing structure due to previously mentioned factors, you will be hard pressed to find matching pricing, or a single source supplier. That means having to write more purchase orders, having material from different vendors, writing more checks, more preliminary information and releases to be acquired. Assuredly this will cut into the profit and overhead, and possibly, delay your projects, incur liquidated damages, cause damage to your company reputation, and jeopardize employment. Not to mention seriously dissatisfied customers!

But pricing will not be our only mutual concern. Shortages will begin to materialize progressively and dramatically as stocks are further depleted from sales or from quality. No nursery can afford to keep a plant that is overgrown, root-bound, or requires extra maintenance, for too long. Room will need to be made for the next cycle. Eventually these shortages will become a pricing factor as the demand increases. Pricing increases will not be driven by greed, but by survivability; the need to stay afloat.

The recent news from our government, that for a balanced budget more cuts will have to be made, and as many are aware landscaping and watering are very low on the totem pole of their priorities, has inhibited contractors and developers from fully committing to projects. We have seen the same projects revisited and revised several times in order to lower material costs and preserve their viability. This has shown true for both the public and the private sectors.

We here at Performance Nursery believe that it is in our mutual best interest to inform our customers, and they in turn, their customers, as well as our employees. As the shortages evidently materialize, pricing will surely not only increase, but exceed former levels. Estimators, project managers, foremen, production teams, and sales representatives, who are beholden to a budget, may have to be consulted, and/or retrained, to accommodate these trends.

Nurseries, for their part, will have to start preparing for market trends arising from the economy upheaval. What to devote priorities to? What lines to invest in? What to exclude or abandon? What other alternatives can we develop for our customers in order to save them money and provide them with quality material while keeping cost down and profits up?

The next five years will be a critical period in which survival will depend on how we adapt. Contractors are accepting projects at record breaking losses just to keep their doors open. Some contractors have been placed on COD basis due to payments taking longer and longer. We all need to begin to plan how to adapt, put that plan in place, and execute that plan.

We wish you all the success!

-The crew at Performance Nursery

