

Is the price right?

Oregon nurseries must consider many factors when it comes time for a price hike

BY JON BELL

WHOLESALE nurseries would do well to remember the fires of the Great Recession.

They were the fires that nurseries intentionally set to burn through product that simply wasn't selling from right around 2006 until just a couple years ago. By and large, the burn piles were due to the glum economic picture that saw Oregon nursery sales plunge from an all-time high of nearly \$1 billion in 2006 to a low of \$667 million in 2010.

John Lewis, a third-generation grower and president of JLPN Inc., a deciduous seedling operation in Salem, is one of those whose memories is strong.

"In 2006, our sales dropped by 35 percent and we burned half of our product," he said. "We went in the hole faster than Alice with a John Deere tied to her leg. We dropped another 15 percent in 2007. But we had to survive."

Lewis and others in the industry had to do a lot to ride out the downturn. One of the most difficult challenges was watching expenses soar while prices, on the whole, had to sit tight.

"I've teased a few of my clients that as long as there are burn piles in the Willamette Valley, it's probably not a good time to raise prices," said Ryan Kuenzi, a tax partner with Moss Adams who works largely in the firm's natural

resources space. "Thankfully, that era is pretty well past."

With sales approaching the \$900 million mark in 2015, Oregon's nursery industry has indeed rebounded from the depths of the recession and is enjoying renewed strength. While some in the

we're seeing, and the fact that they're experiencing supply shortages," Kuenzi said, "it's a healthy time."

Post-recession pricing

In an ideal nursery world, there's plenty of demand, just enough supply, lots of labor, costs that rise at a manageable pace, and prices that steadily climb to keep up.

Ideal worlds are hard to come by, but the years leading up to the Great Recession were pretty close. Growers were selling, prices were rising, and confidence was high that the times were good and would stay that way. So, many nurseries planted — and planted some more.

Then the bottom dropped out. Demand dried up, supply piled up and prices all but flatlined.

"Everyone had more product than they could sell, result-

ing in a glut of product and ultimately many bankruptcies from coast to coast," said Mike Pezzillo, national nursery manager for McHutchison, a New Jersey-based horticultural distributor.

Price-wise, many Oregon nurseries had been used to raising their prices on an annual basis. Some still did during the downturn.

"My costs have gone up every year, so my prices have gone up almost every year," Lewis said. "When I did my



industry have tried to bump prices to keep pace with rising costs, many have been challenged through the recovery and not been able to push the price ceiling as high as they would like.

Now, however, a pinched supply and strong demand, coupled with soaring costs and labor shortages, have laid the groundwork for a fertile season of favorable pricing — a solid outlook for one of Oregon's top agricultural sectors.

"Considering all of the trends that

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homework during the recession, I realized I was losing my butt on certain species, so I raised the price to where I was making money. It was my only option.”

Others, however, weren't able to keep raising prices each year.

As president of Applied Horticultural Consulting Inc., Don Richards has advised the nursery and greenhouse industry for nearly 25 years. He said that between 2008 and 2015, so little product was moving that it was hard for most Oregon nurseries to raise their prices.

“There was no way to raise prices, because they weren't even selling anything at the current price,” he said. “In the meantime, the costs of the resources that are required to grow nursery products continued to go up. None of that was static. The only thing that was static was sales.”

Those that ended up hanging on did

so by making cutbacks, offering discounts and otherwise tightening their purse strings.

“You could publish a price, but that wasn't necessarily what you were going to get for it,” said Dan Nelson, president of Hans Nelson & Sons Nursery in Boring. “There was a lot of negotiation. Everybody had more than they could sell, so your prices might not have raised at all.”

Now that the tide has finally turned, the pricing environment has changed. Nurseries are finding themselves in a better position to bump prices up a bit. The primary driver in that, according to Richards, is the current imbalance in supply and demand. What once was a glut of product has shriveled during the recession. Growers cut way back on production, which in turn has led to a shortage of all kinds of nursery product.

“Now things are better and demand

is higher, and the reality is you can't just create new supply overnight,” Richards said. “We're at a point where you can and should raise prices because supply and demand drives sales.”

No shortage of shortages

Pezzillo has no problem rattling off plants that are in short supply these days, including evergreen arborvitae, Western red cedars, boxwoods and Globosa spruce.

“The shortage is evident,” he said.

Other factors are fueling a rise in prices as well. Labor costs are up, in part because there's a shortage in that pool. With the economy in a rebound, more jobs requiring less strenuous labor in better environments — that is, indoors or at least out of the harsh weather — have opened up and taken a chunk of the labor force with them.

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“There just aren’t enough people,” Nelson said, adding that Oregon’s higher minimum wage, despite the shortage of workers, has made expenses rise for nurseries.

In addition, other costs continue to rise as well. For example, Lewis said that, in general, his costs go up between 2.5 percent and 4 percent a year. That includes not only labor, but also materials like plastic containers, which JLPN uses millions of each year.

“We use high-quality containers, so that means we are tied to the price of oil,” he said. “Even when oil is low, our costs seem to increase on plastic and fertilizer nonetheless.”

The overall economic recovery has also set the stage for a rise in nursery prices. Housing starts, while they haven’t come back even close to pre-recession levels, have bounced back. And even though much of the new development in well-populated areas is multifamily, those projects — and there are a lot of them — still require landscaping.

“Some of it may be anecdotal,” Kuenzi said, “but I think it’s fair to say that there’s been a significant uptick in people spending money on landscaping. As housing has come back, in particular new construction, it’s definitely improved the nursery industry.”

Service, quality support price hikes

Conditions are ripe to increase prices, and some nurseries have already been ratcheting them up in recent years. But there are some considerations to take into account before making the numbers climb.

For starters, Nelson said his price increases are often done on an item-by-item basis, not an across-the-board percentage. Kuenzi said it’s also important to look at preorder volumes and see if any products are in particularly high demand or being ordered in larger quantities. Likewise, having a solid inventory management system in place can be helpful in determining what is selling well and what’s not.

“If you’re selling through some >>



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species more quickly than you can produce them, that creates an opportunity to raise prices,” he said.

Taking that kind of practical approach to pricing is key, Richards added.

“You can’t just overtly raise your prices and say you did it because you could,” he said. “That rubs people the wrong way. It’s more of a subtle thing over time. And the offset is that if you have an extreme pushback, you can always offer a discount.”

That said, Nelson said he’s not one to negotiate on prices. Once he’s set, he’s set; he lets the service and quality that he offers back up his product and his prices.

“My price is my price for a reason. I have to sell it for that price to make money and stay in business,” he said. “Growers might pay more for our product, but they don’t have to worry about

when they will get it, how it will look, and how it will perform.”

Additionally, Richards and others cautioned against repeating cycles that have come before — essentially overproducing during the boom times, only to find burn piles once the ride’s over. It happened during the recession, it happened before that, and if nurseries aren’t careful it’s likely to happen again.

“Nursery owners have memories like elephants but appetites like bears,” Lewis said. “We say we will never forget what happened in 2006 and play conservative, but (we) can’t resist planting as much as possible when the market’s hot, after being hungry for sales for so long.”

In the end, raising prices comes down to a long list of factors, none of which should be taken in isolation. From larger economic trends and labor issues, to

consumer preferences and policy issues that affect wages, taxes and more, there’s plenty to consider.

The key, according to many in the industry, is to read all the signs — which right now point to another optimistic year or two — and act accordingly for the big picture.

“With that longer-term cycle, you’re going to hit some home runs and on others you’re going to ground out,” Kuenzi said. “But you bank on the fact that you have a broad enough mix that you have enough winners in there to overcome the losses.” ☺

Jon Bell is an Oregon freelance journalist who writes about everything from Mt. Hood and craft beer to real estate and the great outdoors. His website is www.jbellink.com.



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