No downturn expected for fertilizer prices
Impact of high natural gas costs lingers
By ANDREW OVERBECK
Fertilizer prices, after their sharp recent rise, are expected to remain high, and industry experts say the record cost of natural gas is the primary culprit.
It has been a tough several months for fertilizer manufacturers, formulators and distributors as natural gas prices rose 500 percent to more than $10 per million British thermal units (MMBtu), squeezing already-thin margins.
Natural gas is a major cost component in the manufacturing of nitrogen fertilizer. As a general rule, every 50-cent increase brings a $10 increase per ton of urea.
GAS PRICES TO SPIKE IN FALL
At press time, urea was averaging just over $100 per ton in ports along the Gulf of Mexico, a primary point of production and importation. Natural gas prices, meanwhile, had receded to below $4/MMBtu. Fertilizer producers see no drop in prices in the coming months, however, because natural gas remains at double its historical levels and will likely spike again in the fall.
Moreover, manufacturers are still generating product using higher-cost urea purchased before prices softened.

Biotech turfgrass destined for market
By JOEL JOYNER
WEST KINGSTON, R.I. — Like it or not, genetically engineered turfgrass is on the way. Not only that, but researchers say the possible varieties are endless. “I believe there will be a continuous stream of engineered turfgrass products by various companies,” said Albert Kausch, visiting associate professor here at the University of Rhode Island. “It’s possible now to clone any gene from any organism and introduce that into turfgrasses for various traits. The technology itself is so beneficial and useful that it will go forward.”

OB Sports shifts base to golf-wild Scottsdale
By JAY FINEGAN
SCOTTSDALE, Ariz. — Another golf course management company has joined the parade to Scottsdale, fast emerging as a center of gravity for the game.
OB Sports, until recently based in the Pacific Northwest, has set up shop in this golf-crazy town on the outskirts of Phoenix. The firm foresees operational efficiencies and increased national visibility from the more centralized location.
“Although we have received tremendous publicity for our success on the West Coast, we are now seeing opportunities to expand our image and delivery of services to more of a national level,” said company founder and CEO Orrin Vincent.
In business since 1972, OB Sports has received heavy attention in the past few years for the successful development of new courses on the West Coast featuring unique “themes,” owners donated 64 acres to the Nature Conservancy. The initial routing plan was rejected. More than 13,000 trees had to be planted.
But when the 7,000-yard layout opened last November, it marked the completion of the first championship golf course

Stone Tree brings public golf to Marin County
By DOUG SAUNDERS
NOVATO, Calif. — The new daily-fee Stone Tree Golf Club here in Marin County stands as a testimony to tenacity.
It took the developers eight years to run a permitting gauntlet involving 11 federal, state and local agencies. To meet some objections concerning wetlands, the
**SUPPLIER BUSINESS**

**Briggs & Stratton to test Metallic Power system**

CARLSBAD, Calif. — Metallic Power, a developer of zero-emission, regenerative zinc/air fuel cells, announced that it has shipped the first of its 1.5 kW portable power sources for testing and evaluation by a number of the firm’s collaborators.

One of the units was delivered to Milwaukee-based Briggs & Stratton Corp. The two companies are working together to evaluate a fuel cell power source.

“We are evaluating Metallic Power’s fuel cell at our facility,” said Vince Shiely, Briggs & Stratton’s vice president and general manager of electrical products. “We look forward to continuing our investigation of the potential benefits that this new technology may provide.”

Throughout 2001, Metallic Power will continue a series of preliminary field trials in a variety of applications, including portable power, emergency backup power and vehicular power. Beta testing is slated to begin early in 2002, with initial product launch planned later that year.

“This shipment represents another important milestone for Metallic Power as it is the first delivery of what we believe will be one of the most important power solutions of the future,” said Jeffrey Colborn, Ph.D., president and CEO of Metallic Power. “While still in its infancy, this technology offers high efficiency, superior energy density, and automatic regeneration of the fuel. The cost-effective design is also emission-free and offers near-silent operation so it can be used indoors.”

**Fertilizer costs to remain high**

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Increased gasoline prices this summer could also hamper their ability to pass along cost savings. Furthermore, U.S. urea production is down 21 percent on the year and several plants have shut down. As a result, some in the industry believe that current market turmoil could drive another round of consolidation.

“The natural gas run-up is the number-one factor in price increases,” said Mark Barbera, vice president and general manager for NuGro’s U.S. division. “It will only come down to historical levels once more energy reserves come on line.”

**DEMAND SEEN TIGHTENING**

Companies have raised prices across the board, but have been unable to recover all the costs. Consequently, many companies report thinning margins. Both Lesco and The Andersons attributed their first quarter losses of $5.6 million and $815,000, respectively, to the higher raw material costs.

Lesco chairman and CEO William Foley does not expect softening prices to have much of an impact in the marketplace. “The lower raw material costs are not expected to last very long, so we don’t know what the net effect will be on an annualized basis,” he said. “Prices won’t come down a great deal.”

Supply also is constraining. “A number of U.S. producers have shut down plants,” Foley said, “and that will tighten demand as it gets consumed through industrial and agricultural markets.”

Now, lower-cost offshore urea is coming onto the market, which poses additional concerns, said Barbera. “Quality and delivery are the issues there,” he observed. “A good deal of offshore material is large granular or prill. Granular is too large for professional grade fertilizer, and prill does not coat well.”

**INVENTORY ISSUES**

Production companies, meanwhile, are still trying to dispose of high-cost inventory. “Even if the bottom falls out of the market,” said Russ Mitchell, UHS’s national technical director, “you will not see that in the field – the pipeline is full of products that were produced at a higher cost.” According to Foley, it could take eight to 12 weeks for Lesco to run product through the system.

Instead, having taken a large hit in the first half of the year, companies will seek to increase their dollar-cost average to reach margin targets for the year.

“You have to lower prices as softening happens, but to stay in business you have to get an average gross margin for the year that is reasonable enough to keep you in business,” said Bill Whitacre, president of Simplot Turf & Horticulture.

**SURVIVING THE TURMOIL**

The increase in raw materials costs has companies struggling to protect margins and recoup costs while remaining competitive.

“You try and pass along as much of it as you can,” said Foley. “But you still have to compete on price, especially when you have a competitor that has bought something in the spot market for a lower price and can price for that particular load. It is a volatile commodity in that regard.”

There is a fine line between staying competitive and staying in business, according to Mitchell. “It is a competitive industry,” he said. “But you have to be realistic. In other words, now is not the time to be the Wal-Mart of turf or the low-cost producer. You have a cost and you have a margin. If costs go up, you have to pass them along.”

Bruce Jasurda, president and CEO of Tyler Industries, agreed. “You don’t run a successful business by giving your product away,” he said. “We are entitled to a fair profit because of the value of the service they get from the distributor.”

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