

Raise your prices for 2001

If you're in the lawn fertilization business, it's gut-check time. Screw up your courage and raise your prices this approaching season. If, for competitive reasons, you can't, or if you've already signed up a lot of customers at last season's prices, you may have to revise your 2001 profit forecast . . . downward.

The cost of caring for your customers' lawns and commercial properties is going to rise this year, maybe significantly. The reason is unexpectedly high energy costs.

The most obvious result of this is the higher price we pay for gasoline and diesel fuel, an extra financial burden for any service delivery business such as ours.

But did you know that high energy costs, particularly skyrocketing natural gas prices, are driving up the cost of producing nitrogen fertilizers, too?

In fact, about 4% of total U.S. gas production is used to produce ammonia, says The Fertilizer Institute, a trade organization based in Washington D.C. The ammonia is processed further to make urea, the prime ingredient in most of our turfgrass fertilizers.

The scope of the problem

The Fertilizer Institute says that it takes 33.5 million BTUs of natural gas to produce one ton of ammonia. In 1999, the U.S. fertilizer industry used 580 trillion BTUs of natural gas to make 17.34 million tons of ammonia. Over 80% of this ammonia went into fertilizer production.

The start of year 2000 saw the price of natural gas at \$2.50 per million BTUs. At that figure, it cost just over \$100 to make a ton of ammonia. This year, when the price of natural gas rose to \$6 per million BTUs, it pushed the cost of production of a ton of ammonia to \$229. The price of natural gas continues climbing and is expected to remain high — at least into summer.

With natural gas so expensive, several U.S. urea producers have closed their doors, and others have curtailed production. They're finding it difficult to compete with foreign producers of urea who are paying much less for energy.

This raises the possibility that some types of turf fertilizer may be in short supply this spring. Variables in this picture include U.S. agriculture's demand for nitrogen fertilizer this spring, and the availability and price of foreign-produced urea.

"We've already seen price increases in urea," says Bill Davis, general manager of Tyler Enterprises of Elwood, a major turf fertilizer supplier headquartered near Chicago. "The biggest shock for me is the amount of the jump."

How high will it go?

How much more will fertilizer cost this year?

"I think everybody is really stumped on this one," adds Richard D. Harrell of NUGRO Technologies, Inc., Grand Rapids, MI. "We do know that the prices are going to go up, but we really don't know by how much."

"I'd hate to put a number on it because nobody really knows," says Bill Hubbell, Vice President of Service Centers for LESCO. "Ac-

tually, the cost has been creeping up all year. It wasn't so noticeable because it (the 2000 season) was a soft-demand year for fertilizer. We had plenty of rain in the North and there was a drought in the South."

Some of you have already taken advantage of "early order" opportunities offered by suppliers. Those of you still needing to buy fertilizer for this spring should check with your supplier about prices and availability.

Even if fertilizer prices rise significantly this spring, there's no reason to panic. Most lawn care companies spend less than 15% of their budgets on fertilizer and pesticides.

You shouldn't absorb these higher costs, though. They're a legitimate reason to raise prices.

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