The reality of Oil Costs

I want to share with you US pricing information that was received yesterday. This truly sets out the reality of commodity oil costs and what all manufacturers and retailers are facing.

Wesson announced a price increase a few weeks ago of +20% on all sizes/flavors that was effective 3/24. **This week they revised that increase to be +41% on Vegetable and +54% on Corn and Canola...same effective date.**

The other interesting piece is that they are not allowing any buy-ins on their price increases...they use to give up to 4 weeks normal volume, then revised that to 2 weeks on their December 12% increase, and now nothing on this huge one!

Three weeks notice to the trade by Wesson with no buy-ins!

Wesson is the market leader in the SCO category. Their pricing history for the past year exemplifies the escalating urgency of managing the runaway costs. Lead times on price increases are usually 4-6 weeks.

Dec 3, 2006 +6%
April 22, 2007 +4%
Sep 9, 2007 +5.5%
Jan 27, 2008 +12%
Mar 24, 2008 +20% Cancelled
Mar 24, 2008 +41% Veg, +54% Corn & Canola

On a componded basis, Wesson has taken their list price of Vegetable oil up 84% and Corn & Canola by 100% since December 2006.

What's it mean for us...

All manufacturers purchase oil on the same world markets (CBOT for soybean & canola and WSJ for corn oil). Wesson's pricing examplifies the type of pricing that retailers can expect to see from all suppliers as we move forward. ACH will be taking a large increase in our next pricing window to catch-up with the current commodity costs.

We need to convince retailers to move forward with pricing that reflects market reality as quickly as possible. The costs are real and are too big to shield from consumers. Only through consumer reaction will the legislation for biofuels and ethanol that is driving these costs up be revised. Dialogue has already started in the US congress but until the cost reality hits retail shelves it's an academic discussion.

I expect consumers to purchase smaller sizes as an initial reaction to the higher costs...laying out $6-$7 for oil that you previously paid $3-$4 for is tough. I also expect CL oil to attract consumers but only if retailers aggressively reduce their margins. However, lower CL margins will not help their category profit. I believe retailers need to maximize sales of select branded products at the higher prices while holding their CL margins. Low margin price brands that will become low margin expensive brands need to be eliminated.

Obviously no one has been down this path previously. We will need to work together very closely in the coming months to manage this reality both with our customers and our consumers.