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Local bakers find high wheat, corn prices hard to swallow

Silicon Valley / San Jose Business Journal - by [Mary Duan](#)

A near tripling of flour prices in the past year has Dan Brunello, president of Sunnyvale-based Le Boulanger, rethinking his entire business plan for his 17-store chain and wholesale bakery business for 2008, and he is not alone.

R.W. Garcia Co., a San Jose-based maker of organic, whole-grain snack chips and the pioneering manufacturer of organic blue tortilla chips, is being haunted by the rising cost of corn. The exploding ethanol market has caused prices on all of the company's raw materials -- from flaxseed to a proprietary soy product -- to soar. It has forced R.W. Garcia Co. to request price increases from its private-label partners.

With more farm acreage converted from soybeans and wheat to corn, the weakening dollar and the demand for corn and corn products rising in Asia, wheat is in short supply and prices are at a record high.

"In my 26-year history in the industry, we've never seen this going on. It's completely unprecedented," says Brunello, a baker's son who founded the Le Boulanger chain with his brother, Roger. "Up until now, we've never had problems with booking flour or securing flour futures, but with the increased pricing, it's kind of a crapshoot."

Brunello says prices have increased by as much as 30 percent.

Le Boulanger uses 350,000 pounds of flour a month. The chain last increased its prices in December 2007.

"The word is that supplies are so slim, securing flour for the future might become an issue," he says. "We're looking under every stone to try to increase efficiency. It has caused us to reevaluate our entire business plan for the remainder of the year."

At R.W. Garcia Co., where 70 percent of the company's business comes from manufacturing private-label products, general manager Rich Ryder says the company has no choice but to request price increases. "There is no more room to give. We have all tolerated (price increases) as long as we could, but it has to be passed on now," Ryder says. "We're past the point now where we buy in huge quantities to get the volume discount. We have hit the wall."

It's not just food ingredient costs that have increased, either. A polyfilm bag that cost nine-tenths of a cent just a few years ago now can cost a quarter of a cent.



Dennis G. Hendricks

Le Boulanger workers Santiago Perez, left, and Gabriel Lechuga prepare bagels.

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"We've seen a lot of fluctuations over the years, but relative to raw materials this is absolutely unprecedented and we don't know when it will end," Ryder says. "It isn't just the prices of corn, either. Sure, ethanol has driven prices up to ridiculous levels, but we also have a family of products that use a proprietary soy product and a lot of farmers have said, 'Heck with this. Why bother with this when I can throw corn in the ground?'"

According to the U.S. Department of Agriculture, the country will use about 20 percent of its total corn crop this year for the production of ethanol and next year will use nearly 25 percent.

Shawn Hackett, president of Florida-based Hackett Financial Advisors and editor of the weekly Money Flow Report, a commodities newsletter, says while there's nothing that can be done about pricing and shortfalls in the short term, global wheat acreage will go up in the next growing cycle, starting in the spring.

"In order to grow all the corn needed for ethanol and food demand in Asia, acreage was pulled from things like wheat and soybeans into corn. By the very nature of corn doing that, it's created production shortfalls and record high prices in wheat," Hackett says. "But the high prices have created a response in the farming community. As long as the weather cooperates, there should be a sizable global crop" of wheat.

Mary Duan is a freelance writer based in Salinas.

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