

SETTING PRICES FOR VARIOUS MARKETS

Setting Prices

In local food system markets, you take responsibility for obtaining pricing information, deciding on a pricing strategy, and setting the prices for your products. When you are selling directly to the consumer, you also are doing the marketing work. It takes time and effort to market a product, prepare it for sale, package it, promote it and get it into the hands of your customers. You need to charge enough to pay yourself for all that effort. You may encounter customers who complain about your price. Do not be too quick to lower your price in response to complaints. Recognize the value in your own product and charge a price that reflects that value, but realize not everyone will agree with your pricing decisions.

If you choose to market your products to an intermediate buyer - someone who is not the end consumer of the product - you need pricing information to help negotiate the terms of sale. In some cases, you might be offered a 'take it or leave it' price for a raw product. Should you take it? Knowing the wholesale prices for your product on the open market can help you decide. For information on wholesale prices, go to the resources on page 19.

What if you have a product of exceptional quality or a specialty product that costs more to produce than the typical commodity? You'll need to do your own research on prices for similar products. Be ready to explain why you deserve the price you are asking. Provide buyers with information about your production methods or special product features to help them capture a good price from the end consumer.

Sometimes you need more than a high quality food product to obtain the price you want. Well-designed packaging, a label that supports a brand identity, or third-party certification can add value to a product in your customer's eyes. However, packaging, labeling, branding or certifications all have a cost in money and time and you must earn enough extra to cover these costs.

Pricing Strategies

You must decide on a pricing strategy - or strategies - that work for you. Pricing is based on

market demand and the supply available; the greater the demand with a limited supply, the higher the price. In some cases, where large quantities are available, products may still command a high price depending on demand. Combining pricing strategies can help you find a variety of ways to market your products.

Variety in your marketing and target markets keeps you from being dependent on just one buyer and lets you market different grades of product in different ways. Your pricing may also depend on the buyer. Supplying a consistent, quality product may offset price dips occurring in other markets.

Price Based on Costs - 'Cost Plus'

'Cost plus' should be the basis of your pricing program. If you lose money on what you grow, other pricing strategies will not matter. With 'cost plus,' you use financial records to determine the cost of producing a product, packaging and marketing it, and delivering it to your customer. You then decide what profit you need to make and add that amount to the other costs to arrive at the price you will charge a customer.

Enterprise budgeting is important for this pricing strategy because it helps track your costs of production. In addition to costs of growing, be sure to include the time, labor, and other expenses you put into processing, packaging, labeling, advertising, and selling your product. Some enterprises involve holding a product in storage. You need to account for the cost of holding that inventory. Delayed payments are another hidden cost. If you sell to an intermediate buyer such as a distributor or a restaurant, you may wait at least 14 days and perhaps up to 60 days between delivery of the product and payment. For more information on calculating your cost of production, go to page 10 and refer to the resource for enterprise budgets.

Price Based on Perceived Value

This pricing approach allows you to take into account the intangible things valued by many customers - humane handling of livestock, for instance, or the knowledge that you



Developing a strong relationship with your buyers includes having your price goals established. Ongoing communication will create an atmosphere where you can ask for feedback about the quality of your products and discuss pricing in a candid manner.

practice a specific stewardship on your farm, or the special “taste of place” no other farm can match. Customers may attach more value to your products and reward you for using farming practices they like. In turn, you can charge more than the average price for similar products. Pricing information, however, can be difficult to find, since so much of a product’s value depends on the customer’s tastes and preferences.

You may need to persuade customers that your farming practices merit a higher price. Achieving a value-based premium price may require investing time in marketing activities and educating customers.

Price Based on Retail Price

Consumers pay retail prices for food at the grocery store, yet setting retail prices can be difficult. The Economic Research Service of the U. S. Department of Agriculture (USDA) reports average retail prices for crops and livestock. Prices change monthly, depending on the season and which products are in short or abundant supply. Retail grocery prices in your area can differ greatly from the national average. If your area is far from shipping terminals, for example, transportation costs will probably be reflected in higher retail food prices.

While USDA numbers can help you monitor retail prices and seasonal fluctuations, checking grocery store prices in your area will provide the most helpful information. Look at prices on products similar to yours. If you have a specialty product - such as grass-fed, Food Alliance labeled or exceptional quality - compare prices in stores that carry similar products to

Pricing Based on Costs – ‘Cost Plus’

Advantage

- Helps verify you are making a profit on your product

Challenge

- Keep detailed financial records to be sure you are correctly figuring your total costs - if you are mistaken, you risk losing profits

Pricing Based on Perceived Value

Advantage

- Achieve profits well beyond what you might expect with other pricing strategies

Challenge

- Finding the right customers who highly value what you have to offer

Pricing Based on Retail

Advantage

- Retail price rewards you for the effort you put into processing, packaging, marketing, and distributing your product

Challenge

- Customers might be accustomed to buying their groceries at stores that offer discounts, so the prices they pay for items might differ from your estimates of average retail prices

Pricing Based on Commodity or Wholesale Markets

Advantage

- Much information is available on market prices for a wide variety of commodities

Challenges

- Prices do not reflect the labor you put into packaging and marketing your product
- Market fluctuations that have nothing to do with the quality of your product can affect your profits

Pricing Based on Buyer Relationship

Advantage

- Mutual decision making on pricing builds strong relationships with your buyer

Challenge

- Buyers can change frequently and another new relationship must be built



Photo courtesy of Luna Circle Farm

Pricing is a balancing act and you need to know your cost of production to set a base price for your products. You must set a price high enough to reward yourself for your work. This is balanced with the needs of your customers who are looking for full value for the price they pay.

see what you might charge. Remember grocery store retail prices reflect a percentage mark-up from what the producer was paid. Some grocery stores routinely offer certain products at a loss to bring customers into the store. This is a sales strategy that most farmers can't match.

Price Based on Commodity or Wholesale Market Prices

The commodity market price rewards the effort that goes into producing a raw product and getting it to a point of sale. For products such as raw fruits and vegetables, the commodity market price pays the farmer for production as well as first steps in processing and packaging. For example, a farmer might wash vegetables, cut tops off of root vegetables, and pack them into crates prior to selling them to a distributor at the commodity price. Basing your price on the commodity market could be appropriate if you are selling a raw product right from your farm without any special branding, labeling, or marketing efforts.

Wholesale price can mean different things depending on the buyer. It may include some processing, packaging, shipping, and handling costs. Most online resources show wholesale prices on the east and west coasts and perhaps the Chicago terminal price. Shipping costs result in higher wholesale prices in areas far from terminals. Prices paid locally by distributors or other intermediate buyers can provide useful information if you plan to sell to this type of buyer or to other local markets. Determining

wholesale prices may take extra work on your part to contact distributors or grocery store buyers in your area to ask about the prices they are paying for products.

Price Based on Relationship with Buyer

One of the most important elements of selling local food products is the opportunity to build relationships with your customers and buyers. The strength of this relationship can have a great effect on pricing. For example, if you share cost of production information, your buyer may offer suggestions on how to best price your product. Sometimes a buyer will tell a farmer that their price is too low. When both you and your buyer mutually decide on a price that is fair, it supports

Pricing is always a concern for growers and, in general, farmers tell us what price they want. If the price is high, we usually try it out for awhile and if it doesn't work we try to negotiate with the grower.

Dani Lind, Viroqua Food Cooperative

and strengthens the whole local food system. Understanding the price-setting structure for different markets will help you set prices for your products that are fair, yet still provide a profit for your efforts.

Resources for Pricing

Crop Budgets for Direct Marketers

UW Extension
www.uwex.edu/ces/agmarkets/publications/documents/A3811-9.pdf
Specialty crops as profit centers and as a comparison to other crops.

Market News Service

USDA Agricultural Marketing Service
<http://www.ams.usda.gov/AMSV1.0/MarketNews>
Click on Market News Service for wholesale prices.

Organic Price Report

Rodale Institute
www.newfarm.org/opx
Organic wholesale market prices (market produce)

Today's Market Prices

www.todaymarket.com
Conventional wholesale prices from terminal markets.