Pricing Your Farm Products

Pricing Strategies

Know your Costs and Price for Profit

Price is the dollar amount that you ask for sales of a product or a service. It is one of the four Ps of Marketing: *Price*, *Product*, *Placement*, and *Promotion* . Price is critically important to the profit on the farm, but the other Ps of marketing contribute substantially to the price that you can get. Profit is the 5th P that keeps you in business.

There are various costs that go into deciding what price you will charge for your product.

Start with the **Input Costs** = **Variable Costs** (VC) (fertilizer, seed, gas, labor)
If you do not cover these costs you will be out of business in a short amount of time.

Add in **Ownership Costs** = **Fixed Costs** (FC) (depreciation, interest, repairs, taxes, permits, licenses, insurance)
If you cover these you will meet your breakeven cost to the business, but have nothing left for yourself. Every item should contribute to ownership costs. If you do not cover ownership costs, you will be out of business after a longer period of time.

Add in a **Return to You** = **Profitable Price**
This is the price you need to survive in the long run. Many people start by asking, "how much do I need to make?" Look at your personal finances and expenses and determine the number you need to make from your farm business. Once you have that number, whether it is $10,000 or $40,000, you can adjust the other aspects of your business plan to meet that goal.

Allocate Expenses by Product

Tracking labor and equipment costs by product requires excellent records and can be guided by enterprise budgeting (see Fact Sheet #17). One way to do it is to record tasks and expenses such as plowing time and fertilizer for the whole farm and allocate proportionately by square feet used by a particular product. Keep track of daily time spent for special efforts or expenses required by specific products (such as transplanting) separately. Add these together to determine costs per product. Be sure to keep track of harvestable yields or the amount of product that was actually sold, as this will impact the price per unit significantly.

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Value vs. Price

Many direct market farmers are afraid to charge what they need to in order to have some profit for themselves. It is important that you consider the total cost of the product when setting the price and compete not on price alone but the total value of the product that you offer. **Value = Quality + Service + Price**

- Your buyers want a quality product. Local farmers like you provide this because you can grow varieties for flavor instead of travel characteristics.
- Your buyers want to know how their food was grown. They like the fact that they have a relationship with you. This takes time on your part, but they are willing to pay for it.
- You can introduce them to new products and ways to cook specialty items. This is education that they are willing to pay for.
- Fresh un-waxed products, less fuel used, and community support are also cited as reasons many consumers are willing to pay more for local products.
- You can charge more for early season products when customers are eager to taste the first fresh local strawberries or sweet corn, so strive for early products. Late products like lettuce in December, kale in January, or spinach in February can also fetch a high price.

However, be flexible in your pricing, and keep in mind what consumers are willing to pay for the product. Test different price levels in different areas or markets; set higher prices where consumers are willing to pay more.

Calculations for Determining Price

Cost and Profit Method

Add **variable cost** + **fixed costs** +
profit needed for the particular product = **income**
Divide **income** by the **number of units produced** = **price per unit**

Cost and profit method example

It costs you $3,000 in total variable costs and $2,000 in total fixed costs to make 950 units. You want $2,000 of profit for a specific product.

$3,000+$2,000+$2,000 = $7,000 (income needed from that product)

$7,000 / 950 units = $7.38/unit

Gross Margin Method

This method derives from the whole business sales, costs, and planned profit. This method is usually used by retail businesses that resell products.

Gross margin method example

Know your total expected vegetable sales ($10,000)

Know your total fixed costs + desired profit = $3,000 - **this is the gross margin needed.**

Divide your gross margin by total sales: $3,000/$10,000 = 30%

Know your unit variable cost ($5.00)

Divide the unit price by (100- 30%) of the unit variable cost to determine the price.

$5.00 / (100-30%) = $5.00 / 70% (or 0.7) = $7.14 per unit

Plan for Profit – Don't Drop Prices

What if you have corn at $3.50/dozen according to your calculations and your neighbor is selling corn for $3.00/dozen? Can you still make a profit by lowering your price? Sometimes it is better to sell fewer at the higher price than sell more at the lower price. For example, if your margin on the $3.50 is $0.50 toward profit and if you sell 300 dozen, that will give you $150 in profit. You would have to sell 600 dozen if you sold at $3.25 to get the same profit. For a 7% decrease in price, you have to sell twice as much product. Other factors may play into your price setting such as perishability. It may be better to lower prices on the corn you just harvested in order to recoup at least some of your investment. A good way to drop prices temporarily is to offer a deal of the day like "two-for-one" or something similar that will draw customers to your products. Another option is to donate excess perishable produce to a food pantry or soup kitchen. This will buy you good standing in the community and all your hard work will be appreciated.

Going Rate for Market Area

Many beginning farmers start out with a pricing strategy that reflects what everyone else is charging. While this is a good place to begin, it is not where you want to be forever. It is important to know your unique costs and price for profit. Continue to build relationships and product value with your customers and set prices that bring profits.