

Setting Product Prices

Customers will pay premium prices for premium products.



Two general philosophies

1. Low quality + low differentiation + high quantity = low price
2. High quality + high differentiation + lower quantities = high price

*As a producer focused on direct marketing, you are capturing the highest possible percentage of the profit, and your profits are based on the quality and uniqueness of your products.

Two methods for setting product prices

1. Set prices based on production costs. This takes time but is the best way to determine whether you're covering your costs, and where your losses are (which may cause you to modify what you grow to improve revenue in the future). Enterprise Budget tools like the one developed by Roger Wilson in the UNL Ag Economy department are excellent resources for establishing your costs. <http://agecon.unl.edu/web/agecon/resource/hortbudgets.html>. If you have more than 1/10 of an acre of a particular crop (700 bed feet), it should become simpler to track the costs for that single crop.

Once a year, add up all your production and marketing expenses (don't forget a decent wage for your labor) and divide them by your production area in some unit of measurement that makes sense to you (acres, beds, square feet). Divide that number by the pounds of marketable produce you harvest from each of your units, and you'll have at least a crude version of your cost of production per pound. (Byczynski, Lynn. 2009. "Setting Prices: A Balancing Act," Selling at Farmers Markets-Ideas and Information to Make Your Venture a Success. Growing for Market. p. 11.)

2. Set prices based on retail of comparable items. Check current prices either at other farmers' market vendor's stall or at Open Harvest/ Whole Foods.

Market Considerations

Quality: Customers will pay more for a product that is noticeably higher quality.

Uniqueness: The more unique your product, the greater flexibility you will have in setting the price where you want it. (#2 yellow corn is #2 yellow corn.)

Time of Year: Early-season and late-season offerings bring premium prices if you're the only one in the market carrying the item. Early is especially lucrative because everyone's really craving it!

Market Clientele: Be aware of the demographic in the area you are selling. Some markets will bear higher prices than others.

Competition: Prices must still stay competitive with other vendors who have similar products.

The Economy: Always be aware of economic trends.

Add Value

Service: Be friendly with customers, provide nutrition or cooking information.

Offer Samples: Let them taste how great your product is!

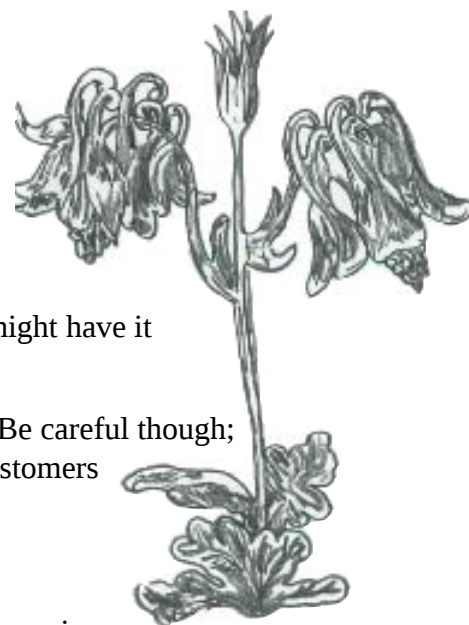
Guarantee Satisfaction: Customers will learn they can count on you to provide high-quality products.

Sell Unique Products: Identify your unique qualities to your customers—heirloom, chemical free, grown on a family farm, etc.

Clear Signage is always a must!

Price Setting Tips

- If an item is moving quickly at your market booth, you might have it priced too low. Try setting a higher price next week.
- If an item doesn't move at all, it may be priced too high. Be careful though; sometimes products don't move because there are few customers at market, so a lower price will only decrease profits.
- Keep prices fairly steady throughout the year.
- Raise prices in small increments every year, rather than large jumps every few years.
- Unit of sale: Snow peas advertised for \$6/pound or \$3/half pound or pre-bagged to half pound and advertised as \$3/bag. Think about how much your customers can reasonably eat in a week and try to set the unit of sale accordingly.
- In general, selling smaller packages for more will be more profitable.
- Price conveniently: \$0.25 increments at most at Farmers' Markets. Whole dollar units are best.
- Don't lower prices at the end of the market day. This will just train people to come visit your booth then. Donate your leftovers instead.
- In general: raising prices by 5% yields the same sales even if your number of customers



drops by 14%. Lowering prices by 5% requires a 20% increase in customers to make the same net sales.

- Multiple pricing and volume discounts will help move larger quantities: \$2/pound or 3 pounds for \$5. Or sell by the flat or by the box for canning and preserving.
- Never sell the same item in 2 price units. For example, don't sell your tomatoes as \$2/pound or \$1 each. This is against market rules.
- Be proud of what you do and what you produce, and be ready to explain to customers why some of your prices are higher than the grocery store.

Finding Price Information

Wholesale Prices

Many wholesale prices are reported on the Internet. These prices are very low compared to retail prices for direct marketing or local wholesale prices, so they should be viewed only as an absolute base price.

The USDA's Agricultural Marketing Service monitors produce prices at several daily terminal markets around the US and reports them online.

To view these reports:

1. Go to <http://marketnews.usda.gov/>
2. In the middle, click "Fruits and Vegetable".
3. Under "Run a Custom Report" select the category you would like to search. The most helpful searches will be "Retail" and "Organic (Only)"

Note: To search flowers, the report is only available at the Boston Terminal Market.

For Organic price reports, also see:

www.ers.usda.gov/Data/Organicprices/

www.rodaleinstitute.org/Organic-Price-Report

The Economic Research Service provides historical reports and the Rodale Institute provides weekly averages at various terminal markets.



Retail Prices

Farmers' Markets

Take time to walk the market each week to check what others are selling their produce for. Fairly assess your own products—if another vendor has standard red beets for \$3.00/bunch, but yours are an unique heirloom variety that are squeaky clean, charge \$3.50. And be sure to talk them up to your customers!

University of Kentucky Extension has begun tracking prices for local foods at markets around the state, over an entire season. Results are available at <http://www.uky.edu/Ag/NewCrops/farmersmarket.html>.

Grocery Stores

Walk through the produce aisles at grocery stores like Open Harvest or Whole Foods to get a sense of how much various products sell for. Sometimes winter prices are extremely high, so be aware of that. Plan for a grocery store to need to add a 30% to 50% margin to your selling price for covering their operating costs. (Example: If you sell a bunch of beets to Open Harvest for \$2.00, they will re-sell it for \$3.00.)

Restaurants

As you develop a relationship with a chef, many of them are willing to tell you how much they are paying for their products through distribution companies. This will give you a good baseline price, but remember that much of what you offer will be significantly greater quality. Local restaurant prices are frequently in line with local grocery store prices.

CSA

Practical Farmers of Iowa have begun tracking CSA pricing and offerings for multiple CSAs in Iowa. This data is available at <http://www.practicalfarmers.org/resources/horticulture-crop-resources/A-CSA-Offerings-Comparison.html>. Most CSAs also post their registration information on their websites, which is to look up. CSAs typically cost between \$450-\$700 depending on the size and season length.

