

Price your Products for Profitability

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What is Price?

- The outlay customers make to get a desired product or service
- An indication that something has value to both buyer and seller
- One of the 4 P's of Marketing (along with product, place and promotion)

What is a “fair” price?

- For your business?
- For your customers?

How do you make money?

How do you make money?

- We each have 24 hours/day
- We can market products, ideas, services.
- The value that customers place on your product must be greater than your costs
- Customers don't care about your costs
- You need to manage customers' perceptions of your products

Producer

- Determine price floors with direct & production costs
 - Direct costs
 - Fixed costs or overhead
 - Determine break-even price
 - An acceptable price floor; a poor price strategy. What's missing?

What's missing?

- Paying yourself
- Paying your business
- A BIG cushion

Producer

- Gather other market reference prices
 - Wholesale prices: USDA AMS Fruit & Vegetable Marketing News
 - <http://marketnews.usda.gov/portal/fv>



- Organic prices: New Farm Organic Price Report
 - www.newfarm.org

Michigan

Detroit

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Terminal (Wholesale) Market Reports on: Fruit and Vegetables



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Shipping Point Reports on: Potatoes for New Brunswick - Canada, Delaware, Maine, Michigan and

New York; Cabbage for New York and Wisconsin; Onions and Apples for Michigan and New York;

Fruit and Vegetables for Michigan; Cranberries (Trends) for Massachusetts, Wisconsin and Washington.

Updated 01/15/08 About the OPR:

The New Farm Organic Price Report (OPR) is an online tool that helps you price competitively. The tool tracks selected prices from the fruit, vegetable, herbs and grain sectors, comparing organic prices to conventional prices in markets across the country.

Prices of organically grown and conventionally grown foods are seen side by side, highlighting the premiums organic can often obtain. Buyers and sellers of certified organic food now know what certain items should and do sell for around the country. Organic farmers, who have traditionally had to insure their crops according to conventional pricing, now have better documented price information for their goods, resulting in more appropriate coverage. Retail consumers can gain insight into where their market dollars go, resulting in a better understanding of organic versus conventional pricing and the food marketplace.

Where we get our data:

FRUITS AND VEGETABLES—Prices for organic fruits and vegetables are provided by large wholesale distributors or sales agencies that specialize in organic fruits and vegetables. In an effort to present the most comparable prices, we selected large distributors that handle product within the geographic location and marketing area of the terminal market. Conventional prices for fruits and vegetables are gathered at the terminal markets by the Agricultural Marketing Service (AMS), a division of the United States Department of Agriculture (USDA).

GRAINS—Prices for organic grains are provided by large elevators or handlers that specialize in organic grains. Conventional prices for grains are also gathered by AMS. In an effort to present the most comparable prices, we selected AMS regions that handle product within the geographic location of the elevators or handlers.

Producer

- Prices from other produce sellers
 - OK to check how others are pricing; to ask them about pricing -- trading information
 - Not OK to get together to “set” prices – collusion
- Prices from your customers
- USDA estimates that farmer share of retail vegetable sales is 23.5%; for fruit is 26.6%
- Frame your price

Pricing Math

Add to find the Total
Cost of an Enterprise

Divide to find the
Cost per unit

Cost of production
+ Cost of operating
+ cost of marketing
Total cost

Per-acre cost /
Production per acre
= Cost per unit

Pricing Math

Subtract to find the
Margin per unit

Multiply to find the Total
margin

Market value of product
- Cost of product
= Profit or loss

Number of units
produced
X profit per unit
= Total profit

Pricing Math

Divide for the Required
Adjustment

Profit goal /
Profit projected
= Required adjustment

Rules of Thumb

- What are you willing to work for?
- \$30 per pick-pack hour rule: every hour spent harvesting and packing produce by farmer and crew ought to produce at least \$30 in revenue
- Any crop that has to be transplanted needs to be sold for at least \$1 per plant
- One should be able to harvest \$50-60 worth of a crop per hour.
- Have 5 really great looking crops at your stall each time you go to market
- What are your rules of thumb?

Build Value in the Customer's Mind

- Customer value equation
- Objective versus subjective value
- The right price for you is too high for some people
- Observe your customers
 - What are their demographics?
 - How can you help them buy your products?

Price as a Communication Tool

- How will you position your product relative to your competition?
- How will you explain price increases to your customers?
- Better to explain price than to apologize for quality.
- Use pricing to heighten awareness, create product loyalty

Navigating as Pricing Factors Change

- When increased supply pushes prices down – maintain value
- When substitutes of inferior quality push prices down – maintain value
- When low supply pushes prices up -- maintain relationships
- Watch your bottom line; adjust prices gradually
- Stay out of price wars
- Make a fair profit

Pricing Techniques

- Price for convenience
- Multiple pricing
- Volume discounts
- Appropriate unit for pricing
- Reward loyalty
- A sale item each week
- Your ideas?

Maintain your Base Pricing

- How can you move surplus product without reducing your prices?

The C.S. Mott Group at MSU . . .

- . . . engages communities in applied research and outreach to promote sustainable food systems that improve access and availability of healthy, locally produced food
- www.mottgroup.msu.edu
- Listservs for/about farmers markets, foodspeak, organic farming, healthy eating

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