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Pricing for Your Farm Store

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Pricing products in your farm store can be a mind boggling task. Farm stores can have numerous foods and products to price, including those grown on the farm and those purchased from other farmers to resell. Most of your customers will have a good idea of your competitors' prices, so you probably are using a competitive pricing strategy and price your products accordingly, either lower, higher, or the same as your competitors. This is quite reasonable, but you need to understand how your prices affect your business and your profits. Do your prices pay for all your costs so you are not losing money on your store? Do your prices take advantage of high consumer or seasonal demand so you are not leaving money on the table?

Although the steps appear simple, making the pricing decisions can be a lot of work. Here is one attempt to clearly delineate the process of pricing products in your farm store.

Keep a History of Your Past Prices and Product Sales

Don't simply rely on memory, especially with product sales trends. While it is easier to simply look at total item sales across the year, you lose the benefit of understanding your price and volume trends and demand cycles.

Gather Information on Competitors' Prices

You need know what the local market prices are. You can collect the information by:

- looking in the newspapers and on websites
- walking through the supermarket
- going to the farmers markets
- going to other farm stores

Take a pad and pencil with you and take notes on prices, sizes, quality of product, variety, and other relevant factors that affect the price. You can bring a relative with you to help and you can also ask relatives to collect the information as they travel through the community. Which products are most like yours? Make a special note of these prices. You will use all this information to determine your own prices.

Calculate the Total Costs of Getting the Product out the Door

As the farm store owner, outline all your store costs. You might want to examine costs by the following categories. (Calculate these as per unit costs, that is, per pint of blueberries or per quart of maple syrup.) You must make sure you identify **all** the costs. Keep in mind that if you forget a cost or expense, you may end up pricing your products at a loss!

- cost of goods sold: cost to produce the product or cost of buying it for resale (including transportation)
- direct (variable) product costs: grading, sizing, labeling, and packaging used to get your product presentable to sell in the store.
- overhead (fixed) costs: labor, store depreciation, administrative costs (e.g. bookkeeping, office expenses), taxes, insurance, store fixtures & décor, power & heating, management, product loss & shrink, etc.

Assigning many of these expenses to individual products will be difficult. For now, keep everything that you can't assign directly to a product in your hip pocket. These are usually the overhead expenses. We will come back to them soon. Add the cost of goods sold per product per unit (that pint of blueberries) to your variable costs per unit to get your total direct costs per unit.

Compare the Market Prices to Your Product Costs

Subtract your direct product cost from the average product price that you collected from your competitors. This is sometimes called the contribution margin and should be a positive number! It also needs to be larger than your overhead plus your profit if you need to earn money on the product. Table 1 below gives a sample of what the calculations might look like.

Table 1. Calculating Your Contribution Margin

	Unit price ($)
A pint of blueberries	$4.00
- Cost of goods sold	-2.00
- Direct or variable costs	-0.50
=Contribution margin	1.50
- Store overhead allocation	?
=Estimated profit	?

Unfortunately from this step on, there is no easy formula for calculating the exact final price of your product. You need to assign a portion of your overhead plus profit to your costs in order to determine the price. This is part objective and part subjective and you might need to be a bit creative. You will want to consider the following:

- The maximum price you should consider is the maximum price the market will bear for your particular product. However, do not short change all the work you put into growing and handling a particular fine crop. Your price may be the highest price on the market if it is worth it!
- In some cases, the product cost will be close to the going market price. You may need to accept this if it is a bad crop year for you but great for others, if you need the product assortment in your farm or store, or if sales volume for the product is large enough to still contribute to paying for the overhead (small margin, but high volume). If the costs are too close to the market price and the contribution margin is too small to contribute to overhead let alone help to earn a profit, you also have to consider dropping the product in the future.

- A common mistake is to price products too low hoping to out-compete others and increase volume so you can earn enough for overhead and profits. This is different than offering a sale in order to move a lot of product before it goes bad. Rather, this is chronic low pricing. If you do not keep accurate records and monitor and manage prices, you can quickly lose money.
- Some products may have a small contribution margin and some a large contribution margin. That is OK. You will need both to balance out the assortment of products in your store and balance those that don't earn as much as others with others that do.
- Some products are extremely perishable or fragile, such as berries. Some will spoil before you can sell them. You should assign a much larger margin or overhead to these products because they cost more to handle and sell.

After you have decided what overhead to assign to your product, subtract it from your contribution margin and see what you get. Table 2 shows this calculation below, in order for you to evaluate your initial price estimate.

Table 2. Estimating Your Return on a Market Price

	Unit price ($)
A pint of blueberries	$4.00
- Cost of goods sold	-2.00
- Direct or variable costs	-0.50
=Contribution margin	1.50
- Store overhead allocation	-1.25
=Estimated profit	$0.25

Double check your pricing work – After you have priced all the products, sum up all the contribution margins for all the products. Does it cover all the overhead and still leave you with a profit? If not, you will need to go back and adjust the prices or trim expenses!

You can find further discussions about pricing in the following marketing bulletins from the Dyson School at Cornell University:

http://dyson.cornell.edu/outreach/extensionpdf/2013/Cornell-Dyson-eb1307.pdf and
http://dyson.cornell.edu/outreach/extensionpdf/2013/Cornell-Dyson-eb1307i.pdf

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