

# A GENERAL GUIDE TO PRICING FOR DIRECT FARM MARKETERS AND VALUE-ADDED AGRICULTURAL ENTREPRENEURS

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## Introduction

Establishing product prices is a challenge for most direct farm marketers and value-added agricultural entrepreneurs. Producers often base prices on a single factor or resort to the equivalent of picking a price out of a hat. Yet pricing is an important decision that directly impacts the potential of the business to meet goals and ultimately make a profit (or loss).

Pricing decisions take time and consideration of multiple factors to be effective. Pricing is also not something that is done once and forgotten. Markets change and evolve, and prices must be evaluated often to determine whether adjustments are needed.

This publication provides information on general pricing fundamentals to help direct farm marketers and value-added agricultural entrepreneurs develop prices for their products. Topics discussed include:

- Pricing as part of the marketing plan
- Factors to consider when setting prices, including costs of production and marketing, competition and customers
- Pricing strategies to meet business goals
- The art and science of pricing
- Additional pricing resources

## Pricing as Part of the Marketing Plan

A thorough, written marketing plan helps entrepreneurs evaluate the market potential for a product, identify target audiences and develop strategies, including pricing, to successfully evaluate and access the market and meet business goals. The keys to marketing are:

- 1) Identifying and understanding the target audience, a segment of the population who has a need for the product and is willing and able to purchase it, and
- 2) Efficiently and effectively reaching that audience with clear, consistent marketing messages.

Marketing can make or break a business, and poor marketing is often one of the main reasons that businesses fail.

Pricing is an important component of a complete marketing plan. As discussed in more detail later in the publication, producers developing pricing strategies must take into account costs associated with producing and marketing the product; competition; and customers' values, preferences and their willingness and ability to pay for a product. All of these factors are important to explore and evaluate as part of the market planning process. It should be noted that marketing is a dynamic process; so, entrepreneurs must continually evaluate the market and adjust their marketing strategies, including price, as needed.

Pricing must be consistent with other components of the marketing plan. A producer who positions his or her product as high-quality or premium, for example, may confuse customers by pricing the product low relative to competitors. Customers may then wonder whether something is wrong with the product. Price must also be consistent with the place, market channel or method of distribution for the product. Wholesale buyers, such as grocery stores or restaurants, will expect a price less than retail, while customers receiving home delivery of a product may expect to pay a premium for the product and service.

A clearly defined and communicated price is valued by customers, as it is a key component used in making many purchasing decisions. Customers are accustomed to shopping with retailers who clearly mark prices. When prices are not posted, customers may feel uncomfortable in having to ask the price and question the credibility of the seller, thus decreasing the likelihood of a sale. Marketers who cannot discuss price with wholesale buyers may seem unprepared or unprofessional and lose out on sales from this market segment as well.

Common components of a marketing plan and how each relates to price are described below:

- **Market Research and Analysis**

This section of a marketing plan describes pertinent information about the potential market and helps entrepreneurs analyze whether a viable market exists. Strengths and weaknesses of the product and business are evaluated, as well as opportunities and threats presented in the marketplace. A target audience is identified and their values, preferences and ability to purchase are described. Characteristics of competitors and potential competitors are analyzed to help identify opportunities and threats. This part of the marketing plan is helpful in providing information about customers and competition used in developing a price.

- **Marketing and Financial Goals and Objectives**

Goals and objectives for what an entrepreneur seeks to accomplish through marketing of the product are defined. These goals and objectives will help in focusing and evaluating marketing efforts and will help entrepreneurs in choosing a price after considering all the relevant factors.

- **Marketing Mix**

The marketing mix describes the specific strategies developed to meet the needs and attract the target audience. Strategies are developed for the four P's of marketing (product positioning, price, place/distribution and promotion) based on customer characteristics, values and preferences; business goals and objectives; and marketing budget.

- **Marketing Budget**

Spending on marketing activities, especially promotion, can vary widely, and few business owners have unlimited funds to spend. A marketing budget outlines costs associated with the marketing strategies developed in the marketing mix and other marketing expenses. Marketing costs must be considered in the cost of the product and are important to consider when setting a price to generate a profit.

- **Evaluation of Market Response**

This section of the marketing plan describes the methods that will be followed to evaluate the market response to the marketing strategies. These evaluation methods will help entrepreneurs determine whether their marketing methods (and dollars) are working and if they are meeting their goals and objectives. If not, business owners can try to identify and correct problems. Business owners may track number of customers, total sales and average sales per customer, for example, before, during and after a promotional campaign. They may also wish to track sales of products at different price levels and times. These data may help producers identify when price changes may be necessary. Costs related to evaluating the market response will also impact price.



## Factors to Consider When Setting Prices

Several factors should be taken into account when developing pricing. Factors to consider when setting prices may be summarized as the “Three C’s:” costs, customers and competition. Each of these factors should be considered, as they provide information on various aspects of the marketplace and increase the potential of a producer to market a product profitably.

### Considering Costs in Pricing

Knowing the cost of production and marketing of a product is critical for pricing. Without knowing costs, a producer will not be able to identify how much profit (or loss) would be generated at different price levels for a specific number of units sold.

#### *Calculating a Breakeven Price*

The breakeven price is the minimum price at which a product must be sold to cover full costs of producing and marketing the product. The breakeven price is typically considered a price floor – the lowest price to be considered by the producer in developing the marketing plan.<sup>1</sup>

To calculate a breakeven price, producers must determine variable costs per unit, total fixed costs and number of units to be sold. Variable costs are expenses that vary with the number of units produced, such as inputs, ingredients or packaging. Fixed costs are expenses incurred that are the same no matter how many units are produced, such as most insurance, utilities, depreciation and property taxes.

It is important to include all costs for production, marketing and distribution of the product to determine an accurate breakeven price. Costs should include labor, including hired and operator labor, which many producers often neglect to consider.

The formula to calculate a breakeven price is as follows:

$$\text{Breakeven Price per Unit} = \text{Variable Cost per Unit} + (\text{Total Fixed Costs} \div \text{Projected Units Sold})$$

Producers can also create a “sensitivity analysis” to give them an idea of how the breakeven price would change if any of the formula components (variable costs, total fixed costs or projected units of sales) changed or were estimated incorrectly. This involves choosing a range of values for one of the formula components and calculating a breakeven price for multiple values of that component.

Consider a hypothetical producer making strawberry preserves as an example. For the purpose of calculating a breakeven price, the producer estimates that she will be able to sell 75,000 jars of strawberry preserves this year.<sup>2</sup>

<sup>1</sup>In some cases, the producer may intentionally set the price of a product below the breakeven price. This may be a strategy called loss leader pricing to attract new customers, as described later in the publication. In another case, a producer may be in a situation where a surplus supply of products has forced the market price down, and they may need to set or accept a price lower than the breakeven to try to sell some or all of the product to cover part of the costs and minimize losses.

<sup>2</sup>The number of units sold will be affected by both the quantity of product available on the market and the price of the product. To calculate a breakeven price, the producer may make an educated estimate of the quantity of product that may be sold. Once the producer sets a price, they should consider whether it is feasible to sell the estimated quantity of product used in the breakeven calculation given the number of potential customers and their product and price preferences. If the estimate of the number of units sold is too high or too low, the producer will need to adjust production estimates and calculate a new breakeven price, reconsider the pricing strategies and/or decide not to produce the product.



For the purpose of this example, assume annual fixed costs to operate the business total \$100,492, as shown in Table 1.

**Table 1. Annual Fixed Costs**

Annual Payment of Start-up Costs <sup>3</sup>	\$32,992
Utilities	
Gas	4,000
Electric	13,000
Water	4,000
Telephone	3,000
Fixed Hired Labor	10,000
Cleaning Supplies	2,000
Advertising	5,000
Bookkeeping	3,000
Insurance	4,000
Repairs	4,000
Marketing (Advertising & Promotion)	10,000
Automobile	5,500
<b>Total</b>	<b>\$100,492</b>

<sup>3</sup>Start-up costs include the expenditures needed to produce and acquire the facility and equipment needed for production as well as legal fees, licensing, permits, office expenses, etc. needed to set up the business. In this example, assume depreciation has been accounted for in the amortization of the start-up costs and the loan for startup costs is to be repaid over five years.



In this example, variable costs include ingredients for the preserves, packaging and labeling supplies, labor and other costs necessary to produce a jar of product. Recall that variable costs change with the level of production. As sales increase, variable costs per unit typically decline as producers are likely able to purchase ingredients, packaging and other supplies at lower prices. Labor may also be more efficient as production increases. The opposite is true as production decreases.

For the purpose of our example, assume variable costs for a production level of 75,000 units total \$1.96 per jar, as shown in Table 2.

**Table 2. Variable Costs per Jar of Strawberry Preserves** (Production of 75,000 jars)

Strawberries	\$ 0.50
Sugar	\$ 0.12
Jar Lid	\$ 0.08
Glass Jar	\$ 0.35
Boxes and Packaging Accessories	\$ 0.16
Label	\$ 0.04
Variable Labor	\$ 0.71
<b>Total Variable Cost per Jar</b>	<b>\$ 1.96</b>

All components of the breakeven price formula are now available for our example calculation and can be entered into the formula as follows:

$$\text{Breakeven Price per Unit} = \text{Variable Cost per Unit} + (\text{Total Fixed Costs} \div \text{Projected Units Sold})$$

$$\text{Breakeven Price} = \$1.96 + (\$100,492 \div 75,000)$$

$$\text{Breakeven Price} = \$1.96 \text{ per jar in Variable Costs} + \$1.34 \text{ per jar in Fixed Costs}$$

$$\text{Breakeven Price} = \$3.30 \text{ per jar}$$

The estimated breakeven price for the example strawberry preserves is \$3.30 per jar if she sells 75,000 jars.

The producer may be concerned that her projected sales estimate may not be accurate. She may conduct a sensitivity analysis to see what happens to the breakeven if her sales estimate is off by plus or minus 5,000 and 10,000 jars. Therefore, she calculates the breakeven price four additional times using projected sales units of 65,000, 70,000, 80,000 and 85,000.

Total fixed costs remain the same<sup>4</sup> for each level of projected sales. Variable costs, fixed costs per unit and breakeven price are different for each level of sales.

As shown in Table 3, the breakeven price for the example ranges from \$2.95 per jar if she sells 85,000 jars to \$3.70 per jar if she sells 65,000 jars.

<sup>4</sup>Some fixed costs, such as repairs and utilities, may increase as production rises meaning they are not truly fixed. Changes in these costs, however, may be difficult to estimate on a per-unit basis so are not included in the variable cost calculation.

**Table 3. Example Breakeven Price Sensitivity Analysis**

	Projected Sales Units				
	65,000	70,000	75,000	80,000	85,000
Variable Costs per Unit	\$2.16	\$2.06	\$1.96	\$1.86	\$1.76
Total Fixed Costs	\$100,492	\$100,492	\$100,492	\$100,492	\$100,492
Fixed Costs per Unit	\$1.55	\$1.44	\$1.34	\$1.26	\$1.18
Breakeven Price	\$3.70	\$3.49	\$3.30	\$3.12	\$2.95

If the producer will sell 75,000 jars, then she must charge a minimum of \$3.30 per jar to pay all the costs she will incur. By doing the sensitivity analysis, she knows that if sales fall short by 5,000 units, for example, costs will total \$3.40 per jar. If she underestimated sales by 5,000 units, giving her total sales of 80,000 jars, the estimated breakeven price is \$3.22 per jar.

By calculating a breakeven price and conducting a sensitivity analysis, the producer has an idea of where price needs to be to cover costs of production and marketing for various levels of sales.

One of the key principles in pricing is that price and sales volume are interrelated. Lower prices usually lead to a higher volume of units sold and vice versa. Therefore, until price is established, actual sales volume may not be determined. Volume sold probably will also affect breakeven price per unit. Usually, as sales volume increases, costs per unit decline. Thus, cost, sales volume and price are, to some extent, simultaneously determined as each one affects the other.

Costs are an important factor in pricing, as discussed in this section; however, costs are not the only factor to be considered. Producers must also consider whether customers are willing and able to purchase the product at various prices and how the actions of competitors may impact sales and prices.

### **Considering Customers in Pricing**

Price is almost always a factor in purchasing decisions made by customers. In general, because consumers are purchasing on a limited income and budget and there may be substitute products available, they will purchase more units of a product if the price is lower and fewer units if the price is higher, if other factors are equal. Many other factors may influence this basic rule, however.

Price can be a highly important factor or it can be a minor factor, depending upon customer and product characteristics. Customers must have a need/desire for the product and be willing and able to purchase a product for it to be successfully marketed. Price a product too high, and customers may choose not to buy it, as they may not have enough income, or less expensive substitutes may be available. Price a product too low, and customers may think the product is of poor quality and not buy it, or they may buy it but would have been willing to pay more. In this case, the seller is essentially giving up potential income by charging less than the customer is willing to pay for the same number of units.

Customers may perceive product value based on factors such as quality, reputation, wholesomeness, product appearance and familiarity. Producers should understand their target customers' characteristics, needs and preferences related to the product. Price can then be set after investigating customer demographics and psychographics, described in more detail later in this section.



Producers should identify and understand the demographics of customers or target customers – who are the customers or potential customers? Producers must consider whether the customer is purchasing the product at retail or wholesale. Retail prices may be expected by producers who market directly to the end customer. For example, individual customers at farmers markets and on-farm retail markets would expect to pay retail price. Wholesale customers, such as restaurants or retail stores, will typically be purchasing a bulk amount of product to resell to their customers. Wholesalers will likely not be willing to pay retail price. They need to be able to mark up the price to cover their costs of purchasing and marketing the product, as well as generate a profit.

Customer demographics that may influence purchasing decisions include:

- Whether the customer is a retail (e.g., an individual) or wholesale buyer (e.g., for a grocery store or restaurant)
- Age
- Gender
- Race/ethnicity
- Income level
- Geographical location
- Education level
- Marital status
- Number and age of children

Producers should also understand the psychographics of potential customers – why customers buy and how they make purchasing decisions. Understanding the customer’s motivation for purchasing products is an important factor when setting prices and developing other marketing strategies. Questions that may help producers understand customer psychographics include:

- What benefits are customers seeking from the product? What’s in it for them?
- What specific product characteristics would fulfill this need?
- What services or convenience factors are needed or desired? What requirements do wholesale customers such as grocery stores or restaurants have?
- What are they willing to pay for the product?
- How important is price in their purchasing decision for this product?
- Are they repeat customers? How often do they purchase this product?
- When do they purchase the product?
- How much do they purchase per transaction?
- How loyal are they to a particular brand of product?
- What information do they need to make the purchasing decision, and how do they typically find information about products?

Our hypothetical strawberry preserves producer may have more than one target audience or type of customer. For example, she may market preserves directly to customers who visit her on-farm retail market and agritourism operation and to a regional grocery store specializing in local products. She would need to evaluate both of these customer groups to understand their demographics and psychographics. She would need information to set a retail price for her on-farm sales and a different wholesale price for the regional grocer.

Customer demographics and psychographics are essential in setting prices in addition to costs of production and marketing, as previously discussed. The final factor of the “Three Cs” of pricing that should be considered, in concert with cost and customers, is competition.

## Considering Competition in Pricing

Identifying and evaluating competitors is imperative in pricing. The characteristics, market share and prices of competitors impact the market environment and, therefore, are an indication of prices that may be acceptable to potential customers. Competitor information may also help producers identify their own competitive advantage and likely place in the market. This can help producers decide where their prices should be in relation to competitors. Should their prices be higher, lower or the same as others in the market?

When evaluating competition, it may be helpful for producers to investigate the following information:

- Competitor's names
- Years in business
- Product description – characteristics, sizes available, packaging, etc.
- Place or distribution method(s) and location
- Positioning or image portrayed in marketing efforts
- Brand identity or recognition with customers
- Amount of product produced
- Market share (the percentage of sales a company has of total sales in a specific market)
- Strengths or competitive advantages
- Weaknesses
- Price(s)

Producers should also investigate how easy or difficult it is for new competitors to enter the industry. What barriers to entry such as regulations, cost of start-up and production expertise are there to starting a new business and producing and marketing a similar product? What opportunities exist that would assist or encourage new businesses or similar products? This may help producers gauge the likelihood and level of future competition.

A common competitive pricing mistake made by producers is to only consider prices of products that are exactly like theirs. Consider our example strawberry preserve producer. She may think that there is no competition for her product because she is the only local producer of strawberry preserves. She must look more broadly at the market, however. There are many strawberry preserve products available at area food stores. In addition, there may be other locals making preserves from peaches, blackberries or any number of other fruits. Our strawberry preserve producer should consider the characteristics, availability and prices of all products that could reasonably be substituted for hers. The closer substitutes should be evaluated more carefully, however.

Another factor that should be considered is whether competitors are likely to react to the entry of the new producer in the market. If competitors perceive the new entrant to be a threat to their profitability or market share, they may react by reducing their price, increasing advertising, increasing or improving services, or taking other aggressive actions. A large national brand will probably not notice the new entrant because it is not threatened, but a small local competitor producing a very similar product may take actions to make life difficult for the new producer.



## Pricing Strategies to Meet Business Goals

Costs, customers and competition are all important factors to consider in setting prices. In addition to information gathered about the “Three Cs” of pricing, producers may consider pricing strategies to help them meet overall business and financial goals. Various strategies may help producers increase overall sales, break into a new market, take advantage of unique products and meet goals for mark-up and margin. Pricing strategies that may be of interest to value-added producers include loss leader pricing, penetration pricing, cost-based pricing, volume or multiple pricing, product bundle pricing, price skimming and premium pricing.

### **Loss Leader Pricing**

A loss leader is a product priced below total cost to attract new customers to the product, generate greater sales volume of the product and/or encourage sales of other products offered by the business. Some production costs are recovered in the price, but not all.

Grocery stores often advertise loss leader items such as low prices on staples like bread or milk to encourage customers to come to the store for that product. Of course, management is hoping that customers will purchase other grocery items while they are there.

### **Penetration Pricing**

Penetration pricing may be used upon entry into a new market to attract new customers and grow market share. To employ this technique, producers would price at a point to cover costs of production, but lower than the competitors’ prices, for a certain amount of time or until a specific goal is reached, and then prices are increased. The lower price should encourage people to try the product and compare it to other products they have used. Hopefully, the product will gain purchasers that will remain loyal when the price is increased.

### **Cost-Based Pricing**

Producers may have goals related to financial return on products which may impact the price they would need to charge to achieve those goals. These goals may relate to a certain percentage of profit above costs (mark-up) or to a specified percentage of total selling price (margin).

Prices to meet goals related to mark-up and margin can be calculated by using the following formulas:

Mark-up:       $\text{Selling Price per Unit} = \text{Breakeven Price per Unit} + (\text{Breakeven Price per Unit} \times \text{Mark-up } \%)$

Margin:         $\text{Selling Price per Unit} = \text{Breakeven Price per Unit} \div (1 - \text{Margin } \%)$

For example, consider the strawberry preserve producer discussed previously. Assume she has a goal to achieve a profit of at least 30 percent above costs for retail sales.

Therefore, she would calculate a selling price based on a mark-up of 30 percent. As shown below, the producer would need to sell the strawberry preserves for \$4.29 per jar to achieve this level of return.

Mark-up:      Selling Price =  $\$3.30 + (\$3.30 \times 30\%)$   
                  Selling Price =  $\$3.30 + (\$3.30 \times .30)$   
                  Selling Price =  $\$3.30 + \$0.99$   
                  Selling Price =  $\$4.29$

Now assume instead that the producer's goal is to achieve a margin of 25 percent of the selling price. For a margin of 25 percent, the producer would need to charge \$4.40 per jar of strawberry preserves.

Margin:        Selling Price =  $\$3.30 \div (1 - 25\%)$   
                  Selling Price =  $\$3.30 \div (1 - 0.25)$   
                  Selling Price =  $\$3.30 \div 0.75$   
                  Selling Price =  $\$4.40$

Cost-based pricing is also a technique to help producers determine whether a product may allow them to meet their financial goals. In cases where the selling price necessary to meet their goals is unrealistic for customers to pay, producers may choose not to produce the product at all. For instance, the strawberry producer's goal was to receive a margin of 25 percent. After calculating the selling price necessary, she may know from her market research that her particular customers and potential customers would not likely pay \$4.40 per jar of strawberry jam. She would need to decide whether a lower margin is acceptable to her or if she wants to eliminate plans to produce the product.

### **Volume or Multiple Pricing**

Producers who want to encourage customers to purchase a greater number of products may offer one price for single item purchases and another slightly lower price on multiple item purchases. For example, an apple producer may offer fresh apples for \$1.49 per pound for purchases of one to five pounds or \$1.29 for purchases of six to 10 pounds. Taking this method even further, the producer might offer a price of \$1.09 per pound for customers who purchase 10 to 20 pounds of apples. Producers should be sure that the prices offered at each quantity level cover the costs of production and marketing and allow opportunity to meet profit goals.

### **Product Bundle Pricing**

To encourage purchases, producers may group items together to sell for a single price that is lower than the total of the individual product prices. The items may be complementary, such as a gift basket of assorted cheeses, crackers and summer sausage. Alternatively, bundles may include items in excess inventory or include a popular item with a slow-moving product. Bundles may encourage customers to purchase items they would not have otherwise purchased because of the perceived discount.



## Price Skimming

Skimming describes offering a new or unique product at a high price and then lowering the price as competing products become available. Some customers may value the new or unique product more highly than they would a product that is commonly available. Producers with the first home-grown tomatoes of the season at the farmers market, for example, may be able to charge a higher price per pound for those tomatoes than they will for tomatoes later in the season when many vendors have tomatoes to sell. Producers using this method will have to pay close attention to competitors' product availability and customers' willingness to pay for the product to determine the starting price and when it is time to decrease the price.

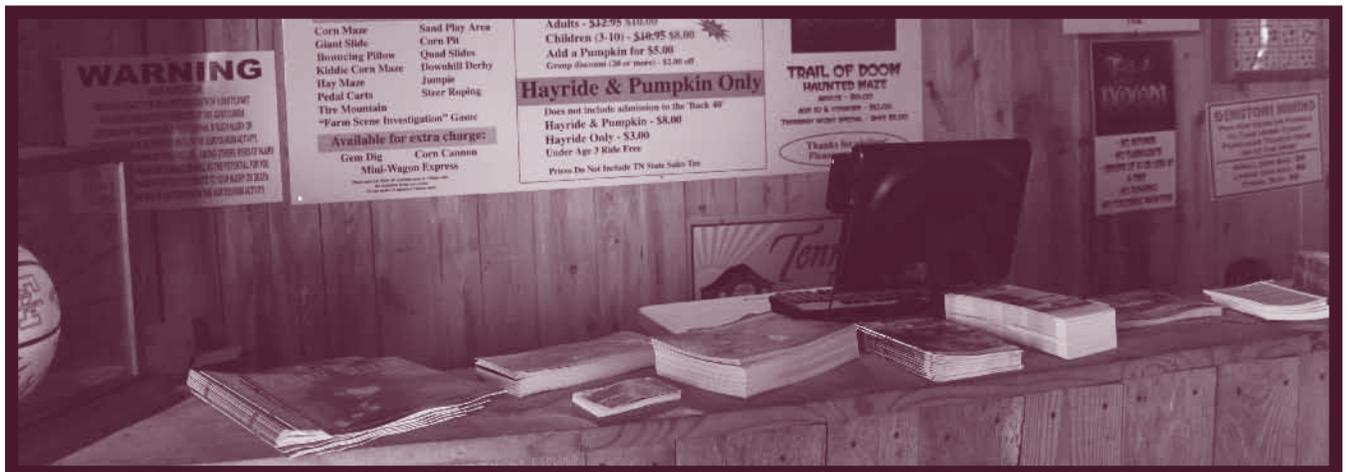
## Premium Pricing

Customers may perceive some products as luxuries and may be willing to pay a high price for quality or uniqueness. Therefore, producers of unique, high-quality products may be able to receive a premium price. Higher prices may even serve as a signal of higher quality to some customers. Demand for these products may be limited, as many customers may not be willing or able to purchase them at a high price level. The premium price may still afford the producer an acceptable profit even on a small number of items sold. For example, premium prices may be set for products such as specialty aged cheeses, reserve estate wines or an extremely unique farm experience.

## The Art and Science of Setting Prices

Setting prices is part science and part art, meaning there is not a simple mathematical calculation that can be used to set a price that considers all of the necessary factors. As discussed earlier in the publication, science can be used to calculate or estimate a breakeven price. Science can be used to research customer demographics, needs and preferences. Science can also be used to evaluate the competition. The art comes in next as producers consider pricing strategies; analyze all of the information gathered about costs, customers and competition; and settle on a product price.

It may be helpful to summarize information learned through the investigation of cost, customers and competition and consideration of pricing strategies in a table, such as Table 4. The table can be used to enter information gathered for each category of costs, customers, competition and pricing strategy.



**Table 4. Example Table to Summarize Pricing Information**

<b>Costs</b>	
Breakeven price	
Cost-based price (based on goal(s) for mark-up or margin, if any)	
<b>Customers</b>	
Retail or wholesale customers?	
What is their willingness to pay?	
How sensitive are customers to the price of this product?	
What is the positioning/image of the product to be portrayed?	
<b>Competition</b>	
Range of competitor prices	
What is the competitive advantage of the product being priced?	
What are weaknesses of the product being priced compared to competition?	
Should the price be lower, the same or higher than the competition?	
<b>Pricing Strategy</b> (if any)	

The information in the table can then be used to help answer the following questions to arrive at a logical price:

- Are customers willing to pay more than the breakeven price?
- How does customer willingness to pay compare to the cost-based mark-up or margin price? Will the cost-based price or more be acceptable to customers? Is a higher price acceptable?
- Does the competitor information seem to indicate a price higher than breakeven can be charged?
- How does the cost-based price compare to competitor prices and the producer's assessment of whether the price should be lower, the same or higher than the competition?
- What pricing strategy will best help the producer meet his or her goals?





Once a price is determined, producers should ask themselves the following questions to confirm that all pricing factors have been considered:

- Is the price higher than the total costs of production and marketing (unless a loss-leader strategy is consciously being used)?
- Does the price help producers meet their financial or sales goals?
- If a lower price is charged, could higher sales volume be achieved? If so, how much?
- Would a higher sales volume lead to reduced per unit costs? If so, by how much?
- Is the price consistent with the desired image the producer wants to portray to customers?
- Is the price consistent with the distribution method/market channel?
- Does the price match customer needs, values and preferences?
- Are customers able and willing to pay the price?
- Is the price reasonable considering competitor product characteristics, prices, strengths and weaknesses?



## Summary

Product pricing is a key component of a thorough marketing plan and should be consistent with the other parts of the plan. Producers should consider several factors, including the costs of production and marketing; customer characteristics, needs and preferences; and competitive product characteristics, strengths and weaknesses while developing pricing strategies.

The science of gathering information on costs, customers and competition is an important part of pricing. Art also plays a part in pricing as producers analyze the information, consider goals in choosing pricing strategies and determine a selling price. Markets change and evolve, however, and prices may need to be adjusted to meet the market dynamics or as producers learn more about the market conditions.

Pricing is not a simple task. It is, however, a vital function that plays an important role in the potential profitability (or lack thereof) in every business.

## Additional Resources and References

### **Sources for Price Information**

Several information sources are available that provide price data for some products.

The USDA Agricultural Marketing Service operates an online database of wholesale fruit and vegetable market prices at <http://marketnews.usda.gov/portal/fv>. This database is searchable by product, market and time period. This may be a good way for potential wholesale producers to determine price trends over time and during the season. Producers may also locate prices for crops beyond those typically offered in their local area.

A similar market news portal exists for livestock and grain at <http://marketnews.usda.gov/portal/lg>. This portal includes access to weekly reports for organic grains and feedstuffs in some regions.

For organic products, the Rodale Institute maintains a database that combines USDA data with information from certain wholesalers. This database may be searched by product at:  
<http://www.rodaleinstitute.org/Organic-Price-Report>

The University of Kentucky's New Crop Opportunities Center publishes price reports from Kentucky's produce auctions and selected farmers markets. These reports may be helpful for identifying regional price trends in similar markets in Tennessee and are available on the website <http://www.uky.edu/Ag/NewCrops/price.html>.



## References and Additional Reading on Pricing

The following publications were used as resources in the development of this publication and may be of interest to producers for further reading.

A brief description of “Pricing Strategies” is found on pages 35-37 of the **University of Tennessee’s** Direct Marketing Guide for Producers of Fruits, Vegetables and Other Specialty Products, available online at <http://utextension.tennessee.edu/publications/Documents/PB1711.pdf>

An overview of “Writing a Farm Marketing Plan” has been published by the **University of Maryland** at <http://agmarketing.umd.edu/Pages/Marketing101/WritingaMarketingPlan.html>

The **Government of Alberta Agriculture and Rural Development** published a series of fact sheets that are helpful overviews of pricing. These include:

- The Essentials of Pricing (Revised September 2009)  
[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex1141](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex1141)
- Methods to Price Your Product (Revised September 2009)  
[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex1133](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex1133)
- Pricing Processed Food Products (February 1999)  
[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex1137](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex1137)
- Pricing Horticulture Products (February 1999)  
[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex918](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex918)

**ATTRA National Sustainable Agriculture Information Service** has many resources for those focusing on Sustainable Agriculture. The “Direct Marketing” bulletin contains a full overview of pricing within the context of the marketing plan. It can be accessed at <http://attra.ncat.org/attra-pub/PDF/directmkt.pdf>

**Iowa State University’s** Ag Decision Maker contains a concise overview of pricing strategies in “Pricing for Profit” at <http://www.extension.iastate.edu/agdm/wholefarm/html/c1-55.html>

Considerations for pricing and adjusting prices are contained in the **University of Wisconsin’s** “Direct Marketing of Farm Produce and Home Goods” (A3602), available for download at <http://learningstore.uwex.edu/assets/pdfs/a3602.pdf>

A detailed discussion of breakeven pricing is found in the **University of Missouri’s** “Break-even Pricing, Revenue and Units” by Joe Parcell, Nancy Giddens and Melvin Brees at <http://extension.missouri.edu/publications/DisplayPub.aspx?P=G648>

The **University of Arizona’s** “Direct Farm Marketing and Tourism Handbook” contains a section on pricing and is available at <http://ag.arizona.edu/arec/pubs/dfmthandbook.html>

**Penn State** has a publication titled “Understanding Pricing Objectives and Strategies for the Value-Added Ag Producer” available on-line at <http://pubs.cas.psu.edu/FreePubs/pdfs/ua441.pdf>



Find additional resources from the Center for Profitable Agriculture at <http://cpa.utk.edu>

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