

## Pricing Pressure: Staying Profitable in a Competitive World

Maine Farmers Market Convention

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Panelists: Jim McConnon (UMaine, Wildwood Tree Farm), Ryan Parker (Parker Family Farm), Carolyn Snell (Snell Family Farm)

Moderator: Ann Mefferd (One Drop Farm)

### JIM MCCONNON

- Pricing becomes increasingly significant as smaller farms and markets become more viable
- Pricing for Profit: Tips for Success
- pricing makes a difference between success and failure
- cost, customers, competition, flexibility
- setting a profitable price
- high enough to cover all costs, allow for a profit
- low enough to encourage people to buy
- people generally under price products and services
- farmers undervalue their labor in their business
- managing and working alongside other labor; typically don't account for that time and the cost of their time
- cost focus ends up with artificially low
- Sales – low prices need to be greater than your costs to cover expenses
- Only profits will sustain your business!!
- Marketing
- focus on consumers buying on a regular basis
- niche: finding out what customers want/need and satisfying those in a profitable way
- focus on what you can sell, attend to and identify new opportunities, customer determines production (in a profitable way)
- Strategy
- Identify target market: demographics, lifestyle patterns, expectations
- Communication package: identify variables to manipulate to help reach your target market
- product, place, promotion, PRICE, brand/position
- Profitability: difference between revenue from sales of your product (gross income) minus all expenses (including value of your time)
- Key: account for ALL of your costs

- profit has to be greater than zero: necessary to keep it going, or grow/change it. IRS may come knocking, need to be able to grow your business, replace technology/existing assets
- return on management and profit are often mixed together in the scope of farm businesses: that time needs to be accounted for in its own accord
- Setting price
- between the floor (total product cost) and ceiling (maximum price will pay):
- Key factors
- business goals: wholesale and direct to consumer require two different pricing strategies; if you have other income, you can strive to break even and balance the difference. Depends on the full spectrum of your plan!
- product costs: need to be measured and captured
- customers expectations: rule the roost over realities.
- Product quality and uniqueness: provided you have a target market, help customers define what quality means
- Market conditions: including competition
- Method of selling: online, wholesale, direct-to-consumer, etc.
- Know Your Cost
- develop a financial record keeping system
- allocate some time on a regular basis to record and analyze
- keep track of all costs: including time with a value placed on it
- Separate costs into:
  - variable expenses: labor, ingredients, composting cost
  - fixed/overhead expenses: costs that don't change whether you make a profit or not insurance, interest, sometimes labor
- Affects ability to increase productions: predominantly variable expenses will make things difficult, while greater fixed costs will allow for expansion
- Organize by farm activity centers: what proportion comes from crop sales, livestock sales, etc. toward gross profits
- Consult with enterprise budgets as a guide: can find from land grant universities
- Recheck expenses on a regular basis
- list in descending order of magnitude expenses that are the greatest down to the smallest
- Track ALL labor time, especially your time, use an activity log. To change anything, you've got to know it!
- Calculate cost of products and use that information to set your prices
- Price Products for Profit
- prices need to be high enough to cover all of your costs and include a reasonable profit – is the price your getting over the units you're going to sell greater than your cost?
- $\text{Price} = \text{overhead expenses} + \text{material expenses} + \text{labor expenses (including yours)} + \text{profit}$

- Be competitive, but be flexible and change as conditions change – effectively convey to customers!
- Be acceptable to your target market
- must tie into long term goals
- Know Your Customers
- identify them! Develop a customer profile. Why are they good customers? Where do they come from?
- What is the nature of their expectations? How important is quality? Food safety? Price? Supporting local farmers?
- Actively seek feedback! Best feedback is feedback that hurts. Provide an opportunity for them to give it to you anonymously
- Price Elasticity of Demand
- how responsive customers are to your pricing
- elastic: small changes up and down are going to radically affect your sales – keeping price below the competition will allow you to make a bigger profit, providing you have the ability to provide enough product to sell a larger amount
- inelastic: price changes don't affect the market as much; if you raise prices, you may lose some sales but your revenues will still rise
- Educate Your Customers
- test new products
- share information!
- emphasize unique qualities of your products
- promote yourself
- Know your Competition
- identify them, their customers, key factors, identify your unique advantages through analyzing weaknesses and strengths
- Develop a Pricing Strategy
- Cost/Plus Pricing
- Premium: (inelastic) cost above others in the market
- Competitive: very close to what others are charging
- Discount: (elastic) below market
- Know Difference Between Margins and Markup
- more for retailers and wholesalers
- markup: difference btw. cost and price divided by cost
- margin: difference btw. cost and price divided by price
- relationship between markup and margin
- Final thoughts
- base pricing on product cost + marketing environment
- be fair to yourself and your customers: accounting for your time and work, articulating pricing strategy to customers

## CAROLYN SNELL

- Sells retail at Portland Farmers' Market and their farm store, beginning of May to Thanksgiving; gives control over pricing
- Grandfather started selling wholesale apples, wouldn't have been able to set prices. Folks say selling retail has saved their family farm!
- First step is to value the product, treat it lovingly: don't ever just say you want to get rid of your product, but connect with customers in a mutually beneficial way
- Shouldn't feel like you're getting away with your pricing, and customers shouldn't feel fleeced; they probably won't come back.
- She makes sure to be a shopper at their market; actually buy from other farmers, remind herself what its like to be a customer – what's it feel like picking up a carrot, vs. a bag of carrots, etc. Sometimes vendors can lose sight of that after a lot of time behind the counter
- Use/cook with your products like your customers do! See if you feel like you got that \$3 value out of those beets.
- Don't do a whole lot of enterprise valuing: do pay attention to what other options are in the marketplace. How much things are selling at grocery stores. Trying to go for a premium product, don't believe that lowering prices are going to increase demand for products
- Fresh peas/strawberries, so much better in season than those other options – prices can't be so directly connected (premium for fresh)
- Pricing wake up call: Rhubarb, doesn't require a whole lot of inputs, can't sell that much of it, so she was selling it for \$2 a lb. At whole foods it was \$6/lb! Decided to increase to \$4. Make a lot of money on rhubarb now, also selling rhubarb plants!
- Pay attention to which plants take more labor than others – sometimes ends up costing more than the market will bear. Lots of other folks at market provided salad greens, often a glut, so Snell only provides them in their farmstand to ensure that they're processing time is well spent.
- Turning sunshine into money! Sometimes people believe more expensive things are inherently better in the premium markets. Sometimes people really want to buy into a bean or onion or potato upgrade, whether their production cost is higher or not.
- People pay attention to certain costs: e.g. sweet corn by the dozen.
- Grading produce really hard, but also selling seconds. Trained customers to recognize value at the seconds table. "I don't want a tomato that judges me either!"
- Sometimes people want to pay more to buy less; brief seasons don't necessarily affect the number of vegetables people will buy.

## RYAN PARKER

- Hamden Farmers Market, debit-style CSA (70 customers), customers choose what they want.

- Our former CSA: flat-lined at about 26 customers with a lot of turnover before we switched to debit-style.
- Part of strategy is to educate people about unpopular/unfamiliar vegetables.
- Partially disagree with marketing definition: capital M “Marketing” definition is convincing people to pay more for something than its worth.
- In our food landscape, grocery stores are our competition, not other farmers – even though what we produce is vastly better
- \$13/lb. charged for baby spinach, people walk away because they think the prices at the store are cheaper, when Price Per Unit is typically higher at the grocery store versus from the farm.
- Critical to know cost per unit.
- Started tracking time 10 years ago- got sick of it by February, realized needed to stop working in February to get paid for the rest of the year.
- Unit price needs to include labor! Know exactly how much time it takes you to set a bed.
- Keep your prices set until the end of market – don’t reward customers for waking up late.

## Q & A

- Difficult to find the time/right system to track budgets
  - Quickbooks is an easy form of financial record keeping!
  - New England Farm Account Book (from Cooperative Extension) – can start with the manual system and then convert to digital
  - For a long time Ryan just did everything by himself; realized he’ll make more with a good employee to do some record-keeping. Those folks are often self-employed, and outside of tax time looking for other relationships.
  - Start one at a time – e.g. focus on tracking packing orders one year, something else the next year. Get in the habit of keeping good records over time.
  - Can hire an accountant/bookkeeper to help you set up a system that works for you, rather than pay someone weekly
- \$.99 – can’t really put into practice in market pricing
  - Ryan thinks is dishonest as a marketing strategy – educate or duplicate. Started bagging spinach in smaller quantities, labeled at same per unit cost. Do still let people know how much people are being charged by the pound.
- Resources for determining a farmer’s fair wage?
  - What would it cost you to substitute for your time. What would you pay someone ELSE per hour for your work?
  - Set a salary, or differentiate pricing for different kinds of work you do (doing the books, baling hay, etc.).
  - Department of Labor produces hourly rate for just about any occupation you can think of (+expertise spectrum).

- Analyze and use information to help you plan to work your way up to integrating a working wage.
- Changing/adjusting prices throughout the season.
  - Snell: more dependent on quality shifts; fuel prices/new labor, etc. Customers just like to know why.
- Back to Ryan's point about grocery stores being major competitors: what can we do to better educate customers along those lines?
  - Compare at the farmers market with local prices of comparative items at the grocery stores, whether its Whole Foods or Hannaford, depending on where you are.

Books suggested during the session:

*Guerilla Marketing* by Jay Levinson

*Business Planning for Farming* (panelists couldn't recall the title/author they were thinking of)  
(Notes submitted by Lily Joslin.)