Setting Prices

The Math Behind the Market

Iowa Farmers Market Manager Toolkit

Vendor Skill Level: BEGINNER

Handout 5

Emma & Marcus
Buffalo Ridge Orchard

Emma and Marcus Johnson returned to Emma's family farm, Buffalo Ridge Orchard, in Central City in 2012—the same year that an untimely frost knocked out the entire season's apple crop. The next year's crop had to make up for the 2012 loss. That change in price forced the family to take a holistic look at how they priced their products. Buffalo Ridge Orchard restrategized their pricing structure based on labor expenditure, profit margin comparison, and the fixed costs of attending any market—stressing the importance of on-farm production being informed by the pricing and vice versa. This holistic view of pricing and production as a whole leads to improved on-farm labor prioritization and targeted marketing.

"If the price we need to make on a cabbage means we will only sell a certain amount of cabbage at the farmers market, then we will only produce enough on the farm to supply that need."

- Emma Johnson, Buffalo Ridge Orchard

Pricing is Unique at Farmers Markets:

The Unspoken Rule

Many vendors may be selling similar items at the farmers market. Be mindful of what the "market price" is so that you don't inadvertently undercut all the other vegetable growers. The general unspoken rule is that you stick close to what everyone is selling any given item for. Charge what the market is charging.

The Market is Yours

If you're the only one with a certain product (like the first tomatoes of the year), the market is yours. Sell that tomato for as much as you think you can get for it. If you have an enterprise unique to the market, you'll use a more traditional cost analysis to find your price by adding labor, expenditures, shrink, and profit into the costs for the products you are selling at the market.

Diversity is Key

If you're selling a diverse-range of products (such as ten vegetable crops or fifteen cuts of meat), consider the profitability of each product. For example: You're making more money on an heirloom tomato than you are on a turnip. But by growing both heirloom tomatoes and turnips, you can reach a larger customer base than by just growing one or the other.

Price Setting Terms

Costs and Analysis to Know

It Takes $$$ to Make Money

Fixed Costs

Fixed costs, sometimes referred to as administrative overhead, are expenses that do not change with sales—at least in the short term. Fixed costs must be paid even if you have no sales at all, and include expenses that you incur separate from production (accounting, phone and internet service, website fees, advertising, insurance, and interest). Your prices must generate enough revenue to cover not only your fixed costs of doing business, but also the variable costs of producing your product.

Variable Costs

Product costs are also termed variable costs because they rise or fall with the volume you're producing. Variable costs are all the costs directly tied to the making of one product—cost for labor and cost for things (seed, fertilizer, compost, breeding animals, feed, processing fees, packaging, labels, etc.).

Breakeven Analysis

Understanding fixed and variable costs is the first step in determining a breakeven point for your business. The breakeven point is the number of units or sales dollars you need to sell to cover both your fixed and variable costs. When the business is neither earning a profit nor losing money, it's "breaking even." Every unit you sell beyond the breakeven point will generate a profit; every unit below it generates a loss.

Calculating your breakeven can help you decide if your business plan is practical or if it needs to be adjusted. Breakeven also gives you an idea of how much product you need to sell before the business will be profitable.

Breakeven Point in Units

$$\text{Breakeven Point} = \frac{\text{Total Fixed Costs}}{(\text{Selling Price per Unit} - \text{Variable cost per Unit})}$$

Breakeven Sales in Dollars

Breakeven in Sales = Fixed Costs + Variable Cost

Profitability Goals

Net Income = R - COGS - F - I - T

Where:

R = Revenue COGS = Cost of Goods Sold

F = Fixed Costs I = Interest T = Taxes

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{R} * 100$$

Examples of Net Profit Margins by Industry

Privately Owned Restaurants — 5.1%

Average Supermarket — 1.3%

Manufacturing — 10% or Greater

(Based on data from the Food Marketing Institute and Sageworks)

Questions?	Contact Information	
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