HOW DO I SET MY PRICES?

New farmers often struggle with how to determine the value of their farm products. Pricing decisions are complex, and are directly linked to production costs, the demographics and socio-economic status of customers, scale of production, what’s produced and how it’s differentiated in the marketplace, and any philosophical principals that guide business decisions.

Here are some considerations to keep in mind, and resources to help give you a basis for your decisions.

These suggestions have been compiled by the Rutland Area Farm and Food Link, based on input by:

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A STEP - BY - STEP APPROACH

#1 - CALCULATE YOUR COST OF PRODUCTION

#2 - INCREASE PRICING FLEXIBILITY: LOWER PRODUCTION COSTS

#3 - SET YOUR PRICE RANGE & IDENTIFY YOUR CUSTOMERS

#4 - MONITOR MARKET TRENDS

#5 - ACKNOWLEDGE THE “BIG PICTURE”
#1 - Calculate your Cost of Production

Always cover your cost of production! Create an Enterprise Budget for your farm to determine the cost of production for at least your top five products. This will allow you to set your prices to provide a profit margin that sustains your farm and your family. Pricing products so low that your farming operation is unsustainable does your community and other farmers a disservice.

**RESOURCES**

- Check out this Pricing Webinar:

- Learn more about Enterprise Budgets:
  - [www.uvm.edu/extension/community/enterprisebudgetfactsheet.pdf](http://www.uvm.edu/extension/community/enterprisebudgetfactsheet.pdf)

- Run your numbers using “real life” examples of farm enterprise budgets as a guide:
  - [http://www.uvm.edu/vtvegandberry/budgetexamples.html](http://www.uvm.edu/vtvegandberry/budgetexamples.html)

- Learn from Local Growers:
  - Richard Wiswall, owner of Cate Farm (East Montpelier) has written about his approach to farming in the The Organic Farmer’s Business Handbook:
  - Paul and Sandy Arnold at Pleasant Valley Farm (Argyle, NY) are very experienced with enterprise budgeting and set a minimum net profit per acre and make growing decisions based on this.

#2 - LOWER YOUR PRODUCTION COSTS

This will give you more flexibility in pricing, allowing you to lower prices for those in need or net a greater profit on your products. These are just a few ideas for cost-sharing and increasing your efficiency.

**RESOURCES**

- Order your supplies through a farmer group: NOFA-VT offers group pricing for fertilizer and supplies (non-members pay an additional 10% on their orders)
- Join a co-op: Marketing, Distribution and Equipment are all types of co-ops
- Grow for a Multi-farm CSA: Administration, marketing and crop planning time and costs can be shared by all farms.
- Access Affordable Land: Look into alternative tenure arrangements like long-term leases, work-land barters with another farmer, purchase of land with an existing “Option to Purchase at Agricultural Value” or OPAV, etc.

Remember!

**Pricing is complicated, keep each of these considerations (and more) in mind!**

When calculating costs, include all costs over the life of the product - from field prep and seeds to harvest labor to advertising and transportation costs to get the product to its final market.

**Identify the tools you need** to increase efficiency and decrease labor costs. While there is more upfront cost in mechanizing certain tasks, sometimes investing in the right tool can save you enormous amounts of labor time and bring your production costs down dramatically!

**Scale of Production** figures into the mechanization equation and cost of production. Make sure you determine how much you need to produce to have mechanization investments pay-off.

**Tax write offs** may be available if you donate product to the food shelf or other charity, but only if you can calculate your cost of production (ask your accountant about the specifics).

**Calculate the costs of transportation** and distribution time, especially when marketing further from home.

**Never de-value your Products!** Ever had a bumper crop of a perishable product? Don’t lower your prices to move it! Instead, look for a wholesale outlet like Black River Produce, compost it, or donate it to an emergency food site through Grow an Extra Row. You want customers to follow you based on quality, not prices! (Gifting to encourage repeat customers is different - trying to get rid of celeriac? Give one away, along with a recipe card, and folks will come back to buy more at the next market.)
#3 - Set your Price Range & Identify your Customers

Once you know your cost of production, you can begin to value your product based on profit goals and customer demographics. Target your pricing for different consumers and create price tiers based on the buyer: farmers’ market, direct-to-restaurant, direct-to-retail, and commodity wholesale. This happens all the time - check the same grower’s prices at the Dorset, Manchester, Fair Haven, Poultney and Rutland markets for example (or the price difference for the same product sold in Rutland County and Boston or NYC).

#4 - Monitor Market Trends

Keep tabs on the “going rate” for farm products

- UVM Extension posts a Direct Market Produce Price Report every-other week [http://www.uvm.edu/vtvegandberry/ProducePriceReports.html](http://www.uvm.edu/vtvegandberry/ProducePriceReports.html)
- Boston Terminal (where fruits and veggies come into the east coast for distribution) posts daily price reports: [http://www.terminalmarkets.com/bostonterminal.htm](http://www.terminalmarkets.com/bostonterminal.htm)

#5 - Keep the Larger Picture in Perspective

Accept that we are working in a dysfunctional system! It’s hard to address the concern for pricing products for all consumers without getting into the troubles with our entire food system (which artificially lowers food prices through subsidies, employment of illegal workers, large scale mechanization, and the externalized environmental, social and health care costs...). Farmers living on the edge of financial ruin to prop up this dysfunctional system won’t help anyone in the long run!

- Instead of lowering the bar on prices for your products, work to educate your customers about the true costs of food and how that relates to your sustainably grown products. Helping your customers understand the expenses associated with farming in Vermont, and the importance of the farmer making a living wage should be part of this education.
- If you want to survive as a farm, you have to operate like a business. If you operate efficiently and effectively, over time you will find ways to reach all corners of our community.