Pricing for Profit

Pricing strategies for diversified farm and home businesses

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Topics

- Identifying costs
- Factors that effect pricing
- Pricing survival tips
Cost vs. Price vs. Worth

• Cost = The sum of the expenses incurred in producing an item for sale

• Price = The charge assessed to the person purchasing the product

• Worth = The intrinsic value placed on the item either by the buyer or the seller
The Pricing Formula

Labor + Expenses + Materials + Overhead + Profit = Price
Factors that effect pricing...

• Production/Harvesting Costs
• Quality & Selection of Product
• Location of Market
• Customer Income/Demographic
• Volume
• Demand & Supply
• Market Price
• Operating Expenses/Overhead
Two people producing the exact same product will frequently have very different costs of production...

Their prices may have to reflect those differences!
Expenses

- **Fixed** costs stay constant *regardless* of production volume
- **Variable** costs increase as production increases (and decrease as production decreases)
- Determining which costs belong to which category is **NOT** an exact science
- Consistency over time is critical
Tracking Your Costs

• Make your list of associated expenses as complete as possible
• Average out your expenses across all profit centers
• Recheck your expenses frequently
• Know where you’re most vulnerable (which expenses are so significant that even a small fluctuation will make a difference)
Tracking Labor

- Likely to be one of your biggest categories
- Develop the habit of maintaining an activity log
- 80% is better than nothing (realize your log will never be 100% accurate)
- Make the log serve multiple purposes
Pricing Strategies

• “Skimming the Cream” - offering a unique product for which there is a strong demand allowing for higher prices
• Penetration - Setting prices low to enter the market as quickly as possible and gain a high-volume position
• Neither of these is optimal as a long-range pricing strategy
What Your Pricing Says

Honest… Fair… Ethical…  Dishonest… Cheap… Desperate…

Is your pricing strategy consistent, accurate and understandable?
Profit

Fixed Costs
Mortgage
Insurance
Taxes
Equipment loan
payment...

Variable
Replacement
plants
Labor
Packaging
Pest control
Mulch...

Variable Costs

Fixed Costs

Profit
Questions for you to consider

- Where are your prices in relation to the competition?
- Is the profit/unit reasonable?
- Is the volume required reasonable?
If you’re charging a fair price and you aren’t making enough money...

• Possible solutions...
  – Increase volume
  – Focus on the products that are generating the most profit
  – Decrease expenses
  – Redefine your niche, customer, marketing
  – Rethink your product
Final Tips...

• Keep accurate records
• Recalculate costs on a regular basis
• Barter goods & services to conserve cash
• Make time for research
• Know your customer profile
• Match your units to your price & your customer
Final thoughts...

• Never undercut prices to gain customers
• Charge as though your livelihood depends on the results, even if it doesn’t
• Be sensitive when asking competitors for advice
• Never bad-mouth a competitor
• Never, never apologize for your price or your product
Thanks!