

# Pricing for Profit

*Pricing strategies for diversified farm and home businesses*

Mary Peabody, UVM Extension

Winter 2009



# 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...

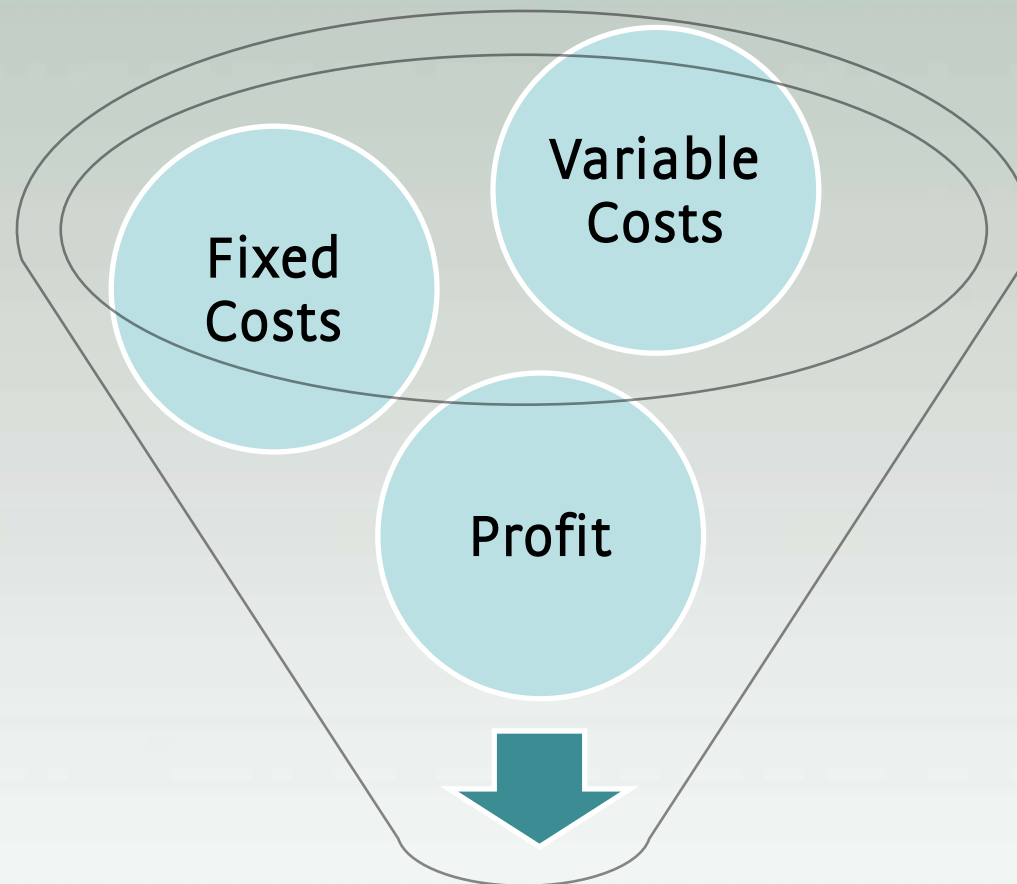
Is your pricing strategy consistent, accurate and understandable?

## Fixed Costs

Mortgage  
Insurance  
Taxes  
Equipment loan  
payment...

## Variable


Replacement  
plants  
Labor  
Packaging  
Pest control  
Mulch...





# 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!