A SUMMARY OF PRICING STRATEGIES

One of the most common questions asked by farmers market vendors is, "How do I set prices for my products?" Generally, prices at farmers markets are set locally and are often higher than similar products available at local grocery stores. Farmers market advocates suggest this disparity is crucial to differentiate the farmers market product from wholesale produce. The two most important factors in setting your prices are knowing your cost of production and knowing what your product is selling for at other local retail outlets.

Knowing Your Cost of Production

For smaller producers, knowing your cost of production may be as simple as once a year, add up all your production and marketing expenses (don't forget a decent wage for your labor) and divide them by your production area in some unit of measurement that makes sense to you (acres, beds, square feet). Divide that number by the pounds of marketable produce you harvest from each of your units, and you'll have at least a crude version of your cost of production per pound. Larger growers should be able to identify production costs for different crops and fields, and then divide those costs by the total marketable yield.

Key Concept: The most common error in calculating production costs by both large and small growers is to discount the value of the time spent producing the crop. Always assume a reasonable wage and realistic time estimates for your labor.

Pricing Strategies

When you have a specific idea of the value of your products and a rough idea of how much your goods cost to produce, you are ready to refine your pricing strategy: pricing for profit, pricing for value or pricing against competition.

A. Pricing for Profit

Every retailer should be pricing for profit. As a farmers market vendor, your task in pricing for profit is a bit more complex than a grocer or restaurateur who is purchasing and reselling their product. The challenge for farmers market sellers is to determine how much it costs to grow and deliver the product to market. Once you know your cost of production and delivery to market, you can accurately determine the price you need to receive to cover your costs. If you search online, you will find numerous tools available to help you determine your cost of production,

Key Concept: Knowing your entire cost of production — including delivery costs and the value of your own labor used in growing and selling — is the most important part of setting a price for your product in a farmers market or any other retail setting. Gut feelings cannot replace this knowledge.

B. Pricing for Value

Pricing for value refers to a strategy used to sell more quantity by giving price breaks when more product is purchased. For example, pumpkins might be priced at "$4 each or 3 for $10." Pricing for value most often occurs in situations when the vendor wants to "move" more product by offering quantity discounts. However, sellers must know their cost of production to effectively price for value. If it costs $3.50 to grow each pumpkin and you are offering "3 for $10" to sell more, you are actually losing money on each of those pumpkins! Value pricing is often used by farmers market vendors who sell larger volumes to restaurants or other regular customers. Value pricing can also be used at the end of the market day if the vendor does not wish to return home with produce.

C. Pricing Against Competition

Many farmers markets discourage vendors from purposefully undercutting each other on prices. This is especially relevant to markets that allow reselling — a vendor might be able to buy bulk wholesale produce at a cost lower than what the produce can be grown locally. Differentiating your product from your competition can help address this problem. Furthermore, the reputation you develop for offering quality packaging, presentation, and high-quality products will allow you to maintain a higher price. The best strategy for pricing against your competition is to know your cost of production.

Loss Leaders

Products that are purposefully priced below their cost of production or purchase value are referred to as 'loss leaders.' You might choose to offer certain products as loss leaders when those products attract customers to your stand, especially if the customer is then led to also purchase other, more profitable items.

Key Concept: Price wars are never won! Successful businesses price products and services to generate a profit!
Price is not the only reason that people buy… but it sure is an important one!