

MARKETING

Pricing Strategies for Direct Marketers

Know your Costs and Price for Profit

By Anita Deming and Bernadette Logozar

Price is the dollar amount that you ask for sales of a product or a service. It is one of the four P's of Marketing: Price, Product, Placement, and Promotion. Price is critically important to the profit on the farm, but the other P's of marketing contribute substantially to the price that you can get. Profit is the 5th P that keeps you in business.

CALCULATE YOUR COSTS

There are various costs that go into deciding what price you will charge for your product:

1) Start with the input costs = Variable Costs (VC) for example fertilizer, seed, gas, labor. If you don't cover these you will have to shut down in a short amount of time.

2) Add in ownership costs = Fixed Costs (FC) for example Interest, Repairs, Taxes, Insurance (DIRTI). If you cover these you will meet your breakeven cost to the business, but have nothing left for yourself. Every item should contribute to ownership costs. If you don't cover ownership costs, you will have to shut down in a longer amount of time.

3) Add in a return to you = Profitable Price. This is the price you need to survive in the long run.

Tracking labor and equipment costs by product requires excellent records. You can keep track of tasks and expenses such as plowing time and fertilizer for the whole farm and



You can offer something different to your customers year round to extend your marketing season. Here a local grower makes wreaths from flowers she grows in her garden. Photographer: Bernadette Logozar

allocate by square feet used by a particular product. Keep track of daily time spent for special efforts or expenses required by specific products such as transplanting or plastic separately. Add all of these together to determine costs per product. Be sure to keep track of usable yields or product actually sold as these impact the price per unit significantly.



One tip for farmers marketers is "pile it high and wave it good-bye." Seasonal open air farmers markets offer a great place to test your market. As a grower you will discover quite quickly what your customers want, and what they don't.

Photographer: Bernadette Logozar

VALUE VERSUS PRICE

Remember to pay yourself. Many direct marketers are afraid to charge what they need to in order to have some profit for themselves. You need to remember that you are providing more than the grocery store so the value to the buyer is higher.

Value = Quality + Service + Price

- Your buyers want a quality product that you can provide because you can grow varieties for flavor instead of travel characteristics.
- Your buyers want to know how their food was grown. They like the fact that they have a relationship with you. This takes time on your part, but they are willing to pay for it.
- You can introduce them to new products and ways to cook specialty items. This is education that they are willing to pay for.
- Fresh un-waxed products, less fuel used, and community support are also cited as reasons many consumers are willing to pay more for local products.

Ask yourself who are your competitors? Do you want to be a 'price setter' or a 'price taker'? You have an edge over large retailers such as Wal-Mart as you are closer to your customer. You have an edge over Harry and David as you can find your local customers.

Remember early products cost more to produce if you used greenhouses, or extra labor for row covers etc. You must get more for the early product. Corn on the 4th of July in the Adirondacks requires starting in a greenhouse. This is a different product than the field grown Silver Queen of August. Most producers in the Adirondacks expect their volume of sales to increase substantially when second homeowners come to town after school lets out. This is a good time to be ready for a volume increase.

MORE ON PROFIT - WILL IT SELL?

You do need to be aware of your local competitors and what they are charging. Be prepared to explain why your prices are more. Remember the value discussion earlier? If you have never sold this product it is better to start higher and be able to lower the price than to start low and raise it.

How much is too much? Or too little? What if you have corn at \$3.50/dozen according to your calculations and your neighbor has \$3.00/dozen? Can you still make a profit by lowering your price? Sometimes it is better to sell fewer at the higher price than to sell more at the lower price. For example, say your margin on the \$3.50 is \$0.50 toward profit. If you sell 300 dozen that will give you \$150 in profit. You would have to sell 600 dozen if you sold at \$3.25 to get the same profit.

Is that going to be feasible? For a 7% decrease in price you have to sell twice as much product. Instead you might ask -- How can I differentiate my product? Signage, layout, local label, or add some other value in order to keep your price point and make the extra 25 cents per dozen.

Another concern with lowering prices to move product that isn't selling well is "product cannibalism." This is when a similar product at a reduced price takes sales from a product that is adding to the profit. An example would be apple seconds taking sales from fancy apples. However, there are times when it makes sense to mark down product. Such as, if the item is out of season or if marking one product down won't take away from sales of another product. Or if you are using the product as a "loss leader" meaning you're willing to take a 'loss' on one product in order to bring customers in with the hope they will buy more. Finally, you may need to drop the price to recoup your input costs. In the last instance, you should strongly con-

sider not growing that item again or figuring out how to grow it for less next year.

CULTIVATING CUSTOMERS

As your customers get to know you, you will build your reputation for quality and honesty. Typically, sixty percent of sales come from repeat customers. Yet many people concentrate their advertising and promotion on the 40% single purchase sales. Satisfied customers will tell their neighbors. The most effective advertising is word of mouth. Repeat sales are the key. It is much more expensive to get a new customer than to get a current customer to buy more. Make your repeat customers feel special and keep them coming back for more!

Each year, evaluate which products added to your profit and plan for what you might do better. It is better to try a new product with potential or to change your production than to keep doing the same thing and losing money. It takes time, energy and determination to keep track of the costs by product, but you will benefit in the long run.

I cannot tell you what price to charge, as every business is different. "Pricing is the art of balancing the business's knowledge of the marketplace with its operating goals," says Wen-fei Uva in Cornell's Department of Applied Economics and Management. Putting pencil to paper is the only way for you to know for sure what each item is contributing to the bottom line.

Anita Deming is an Agriculture Educator with Cornell Cooperative Extension in Essex County. Bernadette Logozar is Agriculture Development Specialist with CCE in Franklin County. If you have questions about pricing and how to figure out your costs, contact your local Cooperative Extension office. If you have specific questions about this article please call Anita Deming (518) 962-4810 extension 409 or Bernadette Logozar (518) 483-7403 or email ald6@cornell.edu.



Pricing is the key, but so is an attractive display to 'catch' passers-by. Use the color of your harvest to bring people into your market stand. Photographer: Anita Deming

You Can Have a Parlor Too!

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Sloping, shaping the holding area. Fifteen square feet per animal is perfect for the holding area if you don't have the animals in there longer than two hours. The best holding areas are flat, gently slope (2-3%) away from the parlor, and are very well ventilated. If your topography and/or farmstead layout is such, having a holding area with no roof (or, in some cases, walls) is great for the cows and for reducing clean-up time.

A holding area with a Mt. Everest slope is a disaster. One parlor had a great design, but

the holding area was sloped at approximately 15%. That means there was a 7.5-foot rise in 50 feet. This farmer could get cows in the parlor, but just barely. He had to spend a lot of time keeping the area clean so the cows wouldn't slip and slide into the next county.

A bigger entry to the holding area is a lot better than a narrow one. No steps are a lot better than steps (that also goes for the exit area). Also, a "Y" or "T" or "L" shaped holding area can be done, but is not efficient because your crowd gate doesn't work as well as it should. (I recommend crowd gates. Lightweight ones can be installed cheaply, and are well worth the investment.) Also be aware of airflow. If the holding area is not ventilated in the winter, cows can get pneumonia if they are brought from dry, cold air outside into the moisture-laden air of the holding area.

Manure handling from the holding area (and cow exit area) should be planned so that a skid steer can keep things clear. While I've heard that hand scraping is good for the soul, I believe it reduces quality of life.

Exit gates are up to you. Exit gates can be any style, but you must decide how you are going to handle animals. On smaller parlors (eight units or less), almost anything will work as long as the cows are treated as milking animals, and not wild rhinoceroses. Avoid pinch points and anything that can bang up a hip is a good rule of thumb. A functional exit gate is anything that swings, folds or slides completely out of the cow's way.

For exit area, straighter is better A screwy exit scheme is the kiss of death for efficient cow flow. The best exit from a parlor is straight out - a shotgun blast. The second best parlor exit is a 90-degree turn with enough cow-exit buffer space to accommodate your entire platform of cows. The last choice is a 180-degree return lane to the holding area. More space (10-12 feet from parlor exit to door) can relieve some problems if the exit or return lanes are too small and narrow, giving space for cows to pass around a slow animal.

Cleaning in place? Having a clean-in-place (CIP) system versus washing units in the milk house is about a coin flip on a small parlor (swing six). Over this number of units, you may wish to put in CIP. If you consider CIP, be sure to plan on putting an eight inch lip on the cow platform under which you can hang the CIP wash cups. Adding CIP to the old tie-stall barn will add \$4,000-\$5,000 to

the swing parlor retrofit because you must be able to wash the parlor as you would your milk house.

Design for quick clean-up. A flush system is an excellent three-season system in the North, but you do have a problem with needing a large amount of storage in the winter. Have several drains (one per 10 feet of length on the cow platform and pit floor) in the parlor so you don't have to chase a cow pie the full length of your parlor with a water jet or scraper. This can greatly reduce clean-up time.

Think and plan! Think outside the box. Be creative. If the cows won't flow, let it go. Building your own parlor can be a great experience but only, ONLY if you know what you want. That means knowing your goals, visiting other farms with such parlors, hashing out your plans, on site — preferably with people who have built and milked in these parlors.

Vance Haugen is an Agriculture Agent with the University of Wisconsin Extension Service in Prairie du Chien, Wisconsin. You can contact him at 608-326-0223; or write to 225 N Beaumont Rd, Suite 240, Prairie du Chien, WI 53581, vance.haugen@ces.uwex.edu. We thank Vance for so generously sharing his knowledge with Small Farm Quarterly readers here in the Northeast!

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