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Pricing for Value

This chapter will enable you to:

- **Understand the role of pricing in customers' perceptions of quality.**
- **Understand the mechanism of pricing and provide vendors with helpful information.**

Pricing is as important to a customer's perception of value as quality. While a customer may be willing to pay a little more for higher-quality produce, most consumers shop on a budget and will search for the right value that affordably meets their needs. Likewise, a farmer might be willing to lower prices to sell higher volumes but ultimately must cover his or her input costs and make enough of a profit to remain a viable business. The right price balance provides customers with an appropriate affordable value and vendors with enough profit for financial security. Over time, vendors and their customers naturally develop a mutually equitable relationship around price, but a market's management can take an active roll in facilitating this process.

As a basic rule, price should represent production costs plus whatever gross profit the market will bear. As with quality, though, a customer's perception of a fair price varies depending on individual preferences and resources. Similarly, every vendor has a "bottom line" that depends on input costs related to production expenses and personal needs. These differences result in a range of acceptable prices at every market.

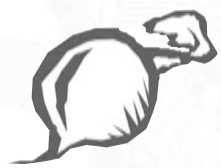
Using Competitors' Prices and Customers' Willingness to Pay to Set Prices

New vendors, and even some experienced ones, may not be certain how much to charge at a farmers market, and prices often vary from one market to the next based on customer demographics and competition from other outlets. As a starting point, vendors often use current retail prices at local grocery stores as a guide. The ability to charge retail prices at farmers markets is one of the primary reasons many farmers choose direct marketing for their produce. While retail prices can serve as a useful benchmark, these prices may not accurately represent the true parameters of pricing at your market.

On the other hand, some vendors use the farmers market to gauge their prices at other outlets. The direct customer feedback at the market provides invaluable information on consumer preferences. The following excerpt from a recent case study of farmers market vendors published by the University of California Sustainable Agriculture Research and Education Program (SAREP) exemplifies this:

> *Frog Hollow Farm's Courchesne was adamant that the farmers market is the foundation for all their business. Courchesne uses the market as the place where he can determine the best prices for his products and test them out. "It is the platform; it sets the stage for everything else we do," he says.*
>
> —Jeri L. Ohmart, UC Davis SAREP
> *Using E-commerce to Add Value to Small Farming Businesses in California.*
> Available online at *www.sarep.ucdavis.edu/CDPP/ecommerce.htm.*

Using Production Costs to Set Prices



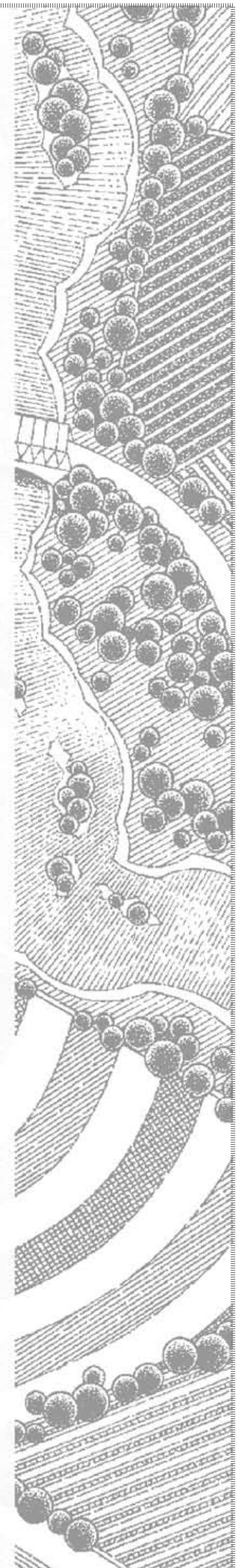
Vendors should begin to determine price by at least estimating their production costs for each product offered. In this context, production costs include all costs up to the point of purchase. Production costs provide a lower limit on what vendors should charge. An exception might be items sold as "loss-leaders"—products discounted below cost to attract customers into making other purchases from which the vendor profits. This basic guideline for pricing assumes farmers know their cost of production, an assumption that, as many farmers market managers know, is not always realistic. Several resources are available to help farmers and small business owners learn about costs and returns (profit/loss) studies. County Cooperative Extension offices, small business development centers, and local community colleges and school district's adult education programs are good places to start. When working with farmers who do not know their costs of production, a manager's role may be limited to encouraging them to take a basic business, accounting, and/or spreadsheet course to develop the skills necessary to set appropriate prices.

Some small-scale vendors may sell at the market more for enjoyment and the social aspects than as a primary source of income. Urge these vendors to be considerate and not to "dump" their produce at a low price or undersell a vendor who depends on market sales for a livelihood.

Customers Expect Competitive Pricing

Published surveys give a general view of what farmers market customers expect or are willing to pay and what farmers actually charge:

- A survey of New Jersey farmers market patrons showed that the majority of the survey respondents (56 percent) believed that prices are lower at



farmers markets, 25 percent did not expect any difference, and 21 percent anticipated higher prices than at other retail facilities. Only 16 percent indicated that price was the most important characteristic affecting their decision of where to shop.

- University of Nebraska Institute of Agriculture and Natural Resources researchers found that customers valued the ideas that their purchases supported a local family farm and that products were locally grown or produced. The most important reasons for purchasing locally grown products were freshness, better taste, and the opportunity to support local farmers. Forty-eight percent of consumers would be willing to pay an amount equal to the typical retail price.

These two examples are typical and suggest that customers generally expect farmers market prices to be competitive with grocery stores, thought they might be willing to pay a little more for higher-quality, locally grown produce.

In August 2001, Southland Farmers Market Association conducted a price comparison survey at six member markets and six grocery stores near the markets. Using ten common items as a representative “market basket,” Southland found in five of the six comparisons that shopping at the farmers market was less expensive than shopping at the nearby grocery store. (see *www.cafarmersmarkets.org/consumer/pricestudy.html*)

Conduct Your Own Price Comparisons

Remember that these results are general and do not represent trends everywhere or for all products during all seasons. Your market should try its own comparisons to determine how competitive it is with nearby grocery stores and even other farmers markets. When conducting a price study, choose a range of products and average prices from several vendors. Compare these prices to those for similar produce at local alternative outlets. Remember that some quality characteristics, such as organic or select varieties

and grades, can carry a price premium at either outlet. In other words, endeavor to ensure that you are comparing apples with apples and oranges with oranges.

Analysis

Tabulate the data using a spreadsheet and calculate the differences between the market and nearby grocery stores. The resulting table might look something like this:

Farmers Market Price Survey Conducted August 22, 2002

Item	Farmers Market	Grocery Store	Difference
Apple, pink lady	$1.20/lb	$1.20/lb	$0.00
Tomato, certified organic	$1.60/lb	$2.00/lb	–$0.40
Pepper, green bell	$1.20/lb	$0.80/lb	+$0.40
Eggplant	$1.00/lb	$1.20/lb	–$0.20
Sweet corn	4/$1.00	3/$1.00	–$0.33
Plums, Santa Rosa	$1.00/lb	$1.20/lb	–$0.20
Squash, summer	$1.00/lb	$1.00/lb	$0.00
Lettuce, green leaf	$1.00/head	$0.80/head	+$0.20
Chard, red	$1.25/bunch	$1.50/bunch	–$0.25
Potatoes, Yukon gold	$0.80/lb	$1.00/lb	–$0.20
TOTAL	$11.05	$12.03	–$0.98

In this example, the market offers equal or lower prices on all but two items. A customer buying all ten items at the market would save $0.98.

If Your Market Has Equal or Lower Prices

If you find that your market prices are consistently equal to or less than other retail outlets in the area, you could make low or competitive prices the focus of some of your advertising. Such a result might also be reason for vendors to consider charging more. Before doing so, though, urge them to consider customer demographics. Market shoppers may have smaller incomes than those who shop at the supermarket and a price increase could force them to shop elsewhere or to buy less. If vendors' prices are lower, though, and they often sell out of products before the end of the market, then it is definitely time to think about a price increase.

If Your Market Has Higher Prices

If you find that your market prices are consistently higher than those at other outlets in the area, you would emphasize quality in your advertisements and promotions. Offering higher quality than the competition enhances perceived value, even at a slightly higher price. As is the case with lower prices, vendors should analyze their sales and consider customer demographics before lowering prices. Use your market's price survey data to identify strengths and weaknesses that factor into determining your market's overall performance.

Price Fluctuations

Fluctuations in prices are natural for products with variable input costs, seasonal effects, and changing supply and demand. Help customers understand why the price for a given product may be high early in the season, lower during the peak, and then higher again as availability waxes and wanes. Vendors may also change prices during a single market day as they adjust to consumer demand and as overall product quality declines as the day progresses. Quality declines during a marker for two main reasons: Exposure to heat and handling and sorting by customers.

Since many perishable products that are not sold the first day cannot be sold another day, some vendors lower prices significantly at the end of the day to sell the surplus rather than bring it home. Vendors should consider how this impacts subsequent sales. Do customers intentionally come late to pick up bargains? Will they react unfavorably if they see the same product at a higher price the following week? These considerations require vendors to monitor sales trends in response to price changes. In some cases, it might be better to hold prices constant during the market and donate the surplus produce to a food bank or gleaning organization rather than lower the price and encourage bargain hunters. The manager can help vendors make such decisions by keeping track of customer traffic at the market from day to day and week to week and noting trends that individual vendors may not be able to track.

Avoid Price Fixing

While it may seem unlikely that anyone would enact Sherman Antitrust laws against a market or vendor, the potential does exist. In one case, a complaint was made against a market because of a clause in its rules that stated that "vendors cannot price their goods more than 25 percent lower than the going rate for that item." The intention of this rule was to limit "dumping" of produce at the market, but it had unintended effects. You can avoid similar controversies at your market by letting vendors set their prices independently. It is better to protect your vendors by maintaining a carefully balanced market mix that meets customer demand without too much oversupply than to try to regulate prices arbitrarily.

Conclusion

In this chapter you learned about the mechanisms vendors can use to set prices, strategies you as the manager can use to determine if vendors' prices are competitive, and ways to improve your market's pricing. Many of these strategies, and others in this guide, depend on your willingness and ability to collect, analyze, and make good use of available information and on vendors' willingness and ability to keep accurate records and use them to guide decisions.

The Farmers Market Management Series

Several years ago, having observed trends in the evolution of food marketing, I decided it would be a good idea to professionalize management of farmers markets by, among other things, developing and making available a Farmers Market Management professional development curriculum. I approached the U.S. Department of Agriculture's Agricultural Marketing Service (USDA AMS) for seed money to launch the project, and the agency was supportive in helping the UC Small Farm Center get the project off the ground.

The project has proceeded deliberately since its inception with support from the Small Farm Center. Happily, the center has now produced three primary volumes as a foundation for the curriculum: *Starting a New Farmers Market*, *Farmers Market Management Skills*, and *Growing Your Farmers Market*.

I wish to acknowledge the early support of this project by Errol Bragg of USDA AMS and, more recently, by USDA's Risk Management Agency. Also, farmers market managers throughout the country were extremely cooperative in sharing their experiences and insights regarding the many aspects of their work.

The UC Small Farm Program and Small Farm Center were early advocates of farmers markets and facilitated education in this regard. This series is part of the Small Farm Program's contribution to the 21st Century's evolution of farmers markets. Please read also our companion farmers market publications, *Managing Risks and Liability at California Certified Farmers Markets* and *Food Safety at Farmers Markets and Agritourism Venues*.

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