



## Developing Pricing

Modern wisdom and economies of scale tell us that it's the strategies, as much as the quality of product we produce, that will allow us to survive with a small beef operation in a big operation commodity market system. To make it work with a branded beef product, one of the single most important strategies is pricing for products.

Establishing any good's value is in some measure done in relation to its price. Your customers will no doubt love the beef you provide them, but even the most loyal or affluent customers will decide what, how much, and how often to purchase partly based on the cost of goods you're peddling. Your job as a product seller is to understand your market.

### Fitting the standard

The gold standard for U.S. beef is U.S. Department of Agriculture (USDA) Choice or USDA Prime. It's the most recognizable "branded" product out there and, for most consumers, Choice or Prime gives them an assurance of quality as well as a basic price assumption.

Of course, we're aware that commodity prices drive the beef market. But, it's not necessarily the same for branded beef products, especially at the local level. If commodity prices are the standard, realize that you may not need to fit the standard and it may even be a great selling point for your company if you don't.

For example, pricing below a certain standard (if you can afford to) may draw your target market to you better than being the same as other vendors. Likewise, if you're intent on delivering a high-end premium product, pricing above the typical point will be a must, assuming your quality and uniqueness merit the

difference. This also affords you a chance to tell consumers that while the well-known USDA program is an option, you are different and why.

### Pricing rational

To determine a price point, you'll need to have a basic scheme for setting price. Deciding how you arrive at price is called the pricing rational. You can base this on:

- Wholesale versus retail pricing (or both if you will sell both ways)
- Comparable products in your market
- Target clientele (value-priced products or premium level)
- Commodity or local markets
- Break-even analysis

### Wholesale versus retail

The first factor to use in determining price is to decide how your product will be sold (see "Retail versus wholesale"). It would be easy to say that the decision between selling wholesale and retail is simply a decision of how much money you want to make and how much of the customer's final dollar you want to earn.

Said another way, someone once told me that selling retail is the way you can afford to sell wholesale off the farm! Jokes aside, I personally think that's an overstatement, and I believe that is over simplified; you can sell both wholesale and retail to different sets of customers at the same time.

At Aubrey's Natural Meats LLC, we sell to restaurants at the wholesale price, which sets their retail price, and they sell to end consumers. We also sell directly to end consumers at a much higher retail price and keep all the markup for ourselves.

The choice between these two is complicated and involves a number

of factors, including the amount of dollars you want to retain for yourself in the final product you deliver. Selling retail may offer you the retail price (easily 50-70% more than wholesale), but it will cost you something in terms of time, labor and other features such as packaging, labeling, processing fees and even increased liability. Your home farm situation and your market niches will ultimately determine this decision for you, but I recommend building a comprehensive pro/con list as you work through the decision.

### Research existing prices

The next strategy for pricing is to research existing prices and determine yet another layer of your pricing strategy. Some general ideas on researching price include:

- 1) Look into commodity markets, especially if you'll be selling wholesale. Commodity markets can be found with the USDA Agricultural Statistics Service and other agencies.
- 2) Search the Internet for other local brands out there. What do they charge? Do you think their pricing is effective?
- 3) Sign up for daily, weekly or monthly e-newsletters for organizations that regulate or associations that represent beef producers.
- 4) Shop the stores or farmers markets where you plan to sell to investigate prices, features and benefits that will help distinguish your own brand.

As you set prices and begin selling, test new product prices on your customers and conduct pricing research as you work with your end consumers.

Pricing is as individual as your branded beef product. Don't feel the need to "follow the herd"; if you've set a pricing strategy that works for you and keeps business growing at a rate you're comfortable with, then you've found the right mix. Be sure to assess pricing at least annually and prepare customers with a bit of notice if you're planning an increase. **HW**

### Retail versus wholesale

One way to sell a product is wholesale. Meaning the product will be raised and processed/packaged by you but then sold to an intermediary such as a distributor or even a restaurant or store that will mark the final product up and make its cut before the end result is sold to the consumer. The other way to sell is retail. With retail pricing, you are not only the beef producer but also the intermediary, or there is no intermediary to distribute your product. To that end, you handle the production and then sell directly to the end consumer at the end price. **HW**