

Considerations for Pricing Your Produce

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We're Going to Be Rich



A Lot of Steps from Seed to Harvest to Sales



Many Crops to Keep Track Of



How Do We Come Up With Prices?



Survey Results

- Conducted vegetable farmer survey on financials
- 76 respondents
- “How Do You Set Your Prices?”
 - a) guess at a price
 - b) look to see what super markets charge
 - c) look to see what competition charges
 - d) other

Survey Says...

- “How Do You Set Your Prices?”
 - a) guess at a price **18%**
 - b) look to see what super markets charge
 - c) look to see what competition charges
 - d) other

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Survey Says...

- “How Do You Set Your Prices?”
 - a) guess at a price 18%
 - b) look to see what super markets charge 18%
 - c) look to see what competition charges 20%
 - d) other

Added Answers

- “How Do You Set Your Prices?”
 - a) guess at a price 18%
 - b) look to see what super markets charge 18%
 - c) look to see what competition charges 20%
 - d) other all of the above 40%

Added Answers

- “How Do You Set Your Prices?”
 - a) guess at a price 18%
 - b) look to see what super markets charge 18%
 - c) look to see what competition charges 20%
 - d) other all of the above 40%
- Figured out costs to set price 4%

Wages

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- Employees making on average \$12/hr

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- Employees making on average \$12/hr
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- After the season was over, farmers figured they were only making on average \$2.75/hr
- Several farmers paying themselves \$10-15/hr

“What Should I Be Getting For...?”



“What Should I Be Getting For...?”

- What did it cost you to grow it?

Cost Of Production

- How do you figure this out?
- Not an accountant
- Don't keep good records
- Don't have time



Cost of Production Answers Questions

- How do I set prices
- What does it cost to run my business
- Can I afford to purchase some equipment
- Can I afford to hire workers
- Is the market really making me money
- What is costing me the most money
- Where can I become more efficient

Start With Keeping Track of Receipts

- Record keeping in an orderly fashion
- Know where to find them
- Divide them by category – seeds; fertilizers; equipment & maintenance, land rent or mortgage –
- IRS Farm Profit & Loss Form F, Section 2

More Than Just Receipts – Need to Figure These Items

- **Labor** – including yourself – hourly
- **Labor** – workers – hourly, state requirements, paperwork
- = Labor costs/hr

Vehicle(s)

- Delivery – if applicable; includes time, gas, maintenance, insurance
- = total delivery costs divided into each crop

Overhead Costs

- Mortgage annual payment
- Depreciation
- Property taxes
- Insurance
- Office
- Website
- Travel/conferences
- Professional services
- Electric
- Landfill
- Telephone
- Advertising
- Shop supplies, misc. repairs
- Labor: management
- Labor: office
- Labor: maintenance

Overhead Costs

- Take this totaled cost and divide into total growing area per crop (acres or bed or linear row for each crop)
- Example if total overhead costs = \$10,000, growing crops on 5A using beds 100ft long (100 beds) which gives 20 beds/A then overhead cost per bed is \$10,000 divided by 100 = \$100/bed
- Or if growing 40 crops and if average quantity grown this might be equal to 25 then divide \$10,000 by 25 = overhead cost of \$400/crop

Equipment Cost - Tractors

Original cost/useful life	7000/25	
Annual cost, w/o interest		280.00
Average annual repairs		500.00
Annual fuel cost @ \$3/gallon		480.00
Total annual cost		1260.00
Hours used annually		200
Tractor cost/hour		6.30
Tractor driver hourly rate		12.55
Tractor with driver: \$/hour		18.85

Equipment – for each implement

- Original cost divided by useful life (in years)
- Annual cost, w/o interest
- Implement annual repairs, average
- Annual hours used
- Implement cost/hour

PTOTiller
800/25
32.00
20.00
40
1.30

Time

- Time to do tasks
- Then divide costs as fraction of each crop grown and sold
- Can estimate prior to start of the season
- Then figure out actual times during season
- Refigure calculations at the end of the season
- Exercise gives you indication of what tasks are most time consuming – work on efficiencies

Pre-Planting - Field Prep per crop or bed

- Disk 1x
 - Chisel 1x
 - Rototill 1x, 2x
 - Bedform 2x
 - Fertilizer
 - Manure, compost
 - Plastic mulch
- For each of these:
 - Labor
 - Machinery
 - Product

Seed/Transplant per Crop:

- Seeding in field
- Cost of transplants
- Transplanting
- For each of these:
- Labor
- Machinery
- Products

Cultivation & Field Work per Crop:

- Hoops – row cover on/off
 - Hoeing 1x, 2x, 3x
 - Hand weeding 1x, 2x, 3x
 - Straw mulch
 - Irrigating 1x
 - Tractor cultivating 6x
 - Side-dressing
 - Spraying
 - Flame weeding
- For these:
 - Labor
 - Machinery
 - Products

Harvest per Crop:

- Harvesting
- Field to pack house
- Washing
- Pack house to cooler
- Bags, boxes, labels
- Labor
- Equipment
- Products
- Food safety considerations

Farmers Market Costs

- Labor: load truck(s)
- Labor: travel to market, set up
- Labor: market vending
- Labor: pack up, travel home, unpack, tally sales
- Vehicle(s) cost at \$0.55/mile
- Market fees, insurance
- Amortized FM equipment – canopies, scales
- Produce bags etc.

Farmers Market Costs per Crop:

- Figure costs for going to a market = FMC
- Divide FMC by the number of crops you bring to market = to get FMC per crop
- So if you have 20 or so crops going to market, then roughly 5% of the FMC is attributed to each crop

After Harvest per Crop:

- Mow crop
- Remove mulch
- Remove hoops, row cover
- Remove irrigation
- Disk
- Sow cover crop:
broadcast or drill
- Labor
- Machinery
- Products

Add up Costs for Each Crop

- Pre- planting + direct seed or transplant + cultivation & field work + harvest + marketing + associated overhead costs fraction = total cost per crop
- Cost of crop \times mark-up = selling price
- Mark-up is the percent made over and above costs
- = profits

Example: Bush Beans @ 2 double row beds at 100ft long

- Soil Prep, Seeding, Cultivation costs
- Pre-harvest subtotal
- Consider:
- Labor; machinery; supply costs
- \$106.68 22.50 50.00
- Harvest 500lbs 42 hr
- Field to pack house cost \$527.14
- Packing to cooler cost \$25.10
- Bags \$21.40

Beans cont.

• Post-harvest	labor	equipment	supplies
• Mow crop	\$2.09	\$0.70	
• Disk	1.26	0.73	
• Seed cover crop	1.26	0.68	\$8.00
• Subtotal for pre-harvest + harvest + post harvest			
•	labor	equipment	supplies
•	\$663.53	\$22.50	\$79.40

Beans cont.

- Marketing labor equipment supplies
- FMC \$22.09 \$4.70 \$9.00
- Add to previous page
- Total crop cost
- \$735.62 \$29.31 \$88.40 = \$853.33
- Overhead \$288 + 853.33 = \$1141.33

Sales by Guessing

- 500lbs sold in 1lb units @\$2 ea
- \$1000 in sales
- $\$1000 - \1141.33 gives $(-\$141.33)$
- Profit turns out to be a loss

Sales with Knowledge

- 500lbs sold
- Unit price $\$1141.33/500\text{lbs} = \$2.28/\text{lb}$

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- Unit price $\$1141.33/500\text{lbs} = \$2.28/\text{lb}$
- Then set price at $\$2.50 = \1250
- $\$1250 - \$1141.33 = \$108.67$ profit

Profit

- Profit = income from sales – total expense
- Since you already calculated in your hourly wage, the profit is left over to invest back into business, pay yourself more, or whatever.
- Knowing all the profit made or loss per crop gives information to determine those big questions

Sales Data

- Inventory sheets filled in for each market day
- Lists which crops brought
- Lists amount of each crop
- Lists selling price
- Lists amount sold
- Provides info on what didn't sell
- Provides info on how much money made by crop for each market day and for each market attended
- Provides info for inventory control for storage and next market date

Resources

- The Organic Farmer's Business Handbook: A Complete Guide to Managing Finances, Crops, and Staff- and Making a Profit By Richard Wiswall – *includes CD of spreadsheets you fill in*
- <http://extension.psu.edu/business/farm/frequently-asked-questions/budgets/cost-of-production>
- <http://www.uky.edu/Ag/CCD/budgets.html>

Knowledge is Power

