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
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
  d) other
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

• Survey says...
• Employees making on average $12/hr
Wages

• Survey says...
• Employees making on average $12/hr
• Did you pay yourself?
Wages

• Survey says...
• Employees making on average $12/hr
• Did you pay yourself?
• 72 of 76 said no
Wages

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• Employees making on average $12/hr
• 72 of 76 said no
• After the season was over, farmers figured they were only making on average $2.75/hr
Wages

- Survey says...
- Employees making on average $12/hr
- 72 of 76 said no
- 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Original cost/useful life</td>
<td>7000/25</td>
</tr>
<tr>
<td>Annual cost, w/o interest</td>
<td>280.00</td>
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<tr>
<td>Average annual repairs</td>
<td>500.00</td>
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<tr>
<td>Annual fuel cost @ $3/gallon</td>
<td>480.00</td>
</tr>
<tr>
<td>Total annual cost</td>
<td>1260.00</td>
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<tr>
<td>Hours used annually</td>
<td>200</td>
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<tr>
<td>Tractor cost/hour</td>
<td>6.30</td>
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<tr>
<td>Tractor driver hourly rate</td>
<td>12.55</td>
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<tr>
<td>Tractor with driver: $/hour</td>
<td>18.85</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Implement</th>
<th>Cost/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTOTiller</td>
<td>1.30</td>
</tr>
<tr>
<td>800/25</td>
<td>32.00</td>
</tr>
<tr>
<td>20.00</td>
<td>40</td>
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</tbody>
</table>
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 \text{mark-up} = \text{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

• 500 lbs sold in 1 lb 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 $1141.33/500lbs = $2.28/lb
Sales with Knowledge

- 500lbs sold
- Unit price $1141.33/500lbs = $2.28/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


• http://extension.psu.edu/business/farm/frequently-asked-questions/budgets/cost-of-production

• http://www.uky.edu/Ag/CCD/budgets.html
Knowledge is Power