MISSISSIPPI STATE UNIVERSITY
EXTENSION

Setting Prices for Fresh Produce and Value-Added Products

FOOD AS A BUSINESS

Setting the right price for your products is an important business decision. A sustainable price allows you to cover your costs, including the value of your labor, and earn a profit. While you cannot always control all your costs, you do have some control over the price you set, especially if you are selling directly to customers. The first step is knowing what it costs you to produce each product. Good recordkeeping and budgets are tools that help you get there. This publication presents details to consider when pricing your agricultural and value-added products.

Understanding Costs

Before you set a price, you need to know your true cost of production. This includes both variable and fixed costs.

Variable costs are costs directly related to the production of your crop or product and vary with how much you produce. Here are some examples:

- For vegetable and fruit production: seeds, fertilizer, pesticides, labor, packaging.
- For cottage foods (like jelly): fruit, sugar, pectin, jars, packaging materials, labels, labor (including your own labor).

Fixed costs are the costs of operating your farm business that stay the same regardless of how much you produce. Some examples include mortgage or rent, insurance, taxes, interest on loans, equipment depreciation, and marketing expenses (like farmers market fees).

Many small farm operators forget to include fixed costs (also referred to as **overhead costs**) when setting prices. But for small operations, fixed costs can be a large share of total costs, so do not leave them out. Keeping good production and financial records will help you build budgets, track expenses, and make informed pricing decisions.

Break-even price

Once you have identified your costs, you can calculate the **break-even price**. Your break-even price is the minimum price you must charge to cover all your costs. At this price, you are not losing money, but you are not making a profit either.

You can find the break-even price by dividing total cost (variable and fixed) by the number of units or expected yield:

Total variable costs = Variable cost per unit + Fixed cost per unit

Break-even price = (Total variable costs ÷ units) + (Total fixed costs ÷ units)

Break-even price Example

- Total fixed costs = $1,000
- Total variable costs = $9,000
- Expected crop yield = 5,000 pounds

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1. Calculate variable cost per unit: 9,000 ÷ 5,000 = 1.80. It costs $1.80 to produce each pound.
2. Calculate fixed cost per unit: 1,000 ÷ 5,000 = 0.20. That is 20 cents per pound to help cover overhead expenses.
3. Calculate the break-even price: 1.80 + 0.20 = 2.00. The break-even price is $2 per pound. This means you must charge at least $2 per pound to avoid losing money on this crop.

Pricing Approaches

There are several ways to set prices, some of which are discussed below. You may use one method or a mix, depending on your farm.

- Demand-based pricing: Raise prices when demand is high; lower them when demand is low.
- Competition-based pricing: Look at what others charge. This should give you a benchmark for prices, but do not base your price only on competitors' prices, especially if they are larger and can sell for less.
- Cost-plus pricing: Find your cost per unit, then add a markup for profit. This is a commonly used method by many businesses.

Basic price formula:

Cost per Unit Variable + Fixed + **Markup** Profit per Unit = **Price**

Example: If your break-even price is $2 per pound (as in the breakeven example above) and you want to add a 50% markup, the markup is $1 (2.0 × 0.50 = 1.0), and your selling price is $3 ($2 + $1 profit = $3).

Factors to Consider When Setting Prices

When setting prices, it helps to think in terms of a range. The lowest price should at least cover your costs (your breakeven point), while the highest price is the most your customers are willing to pay. If your price goes above what customers see as reasonable, you risk losing sales. The goal is to find the balance—a price that is above your cost of production (including the value of your time) but not so high that it discourages customers from buying. Your actual price will usually fall somewhere in between. Once you know this range, you can look at other market factors like product value, customer demand, and competition to decide on the right markup.

When deciding how much to charge, think about the following factors.

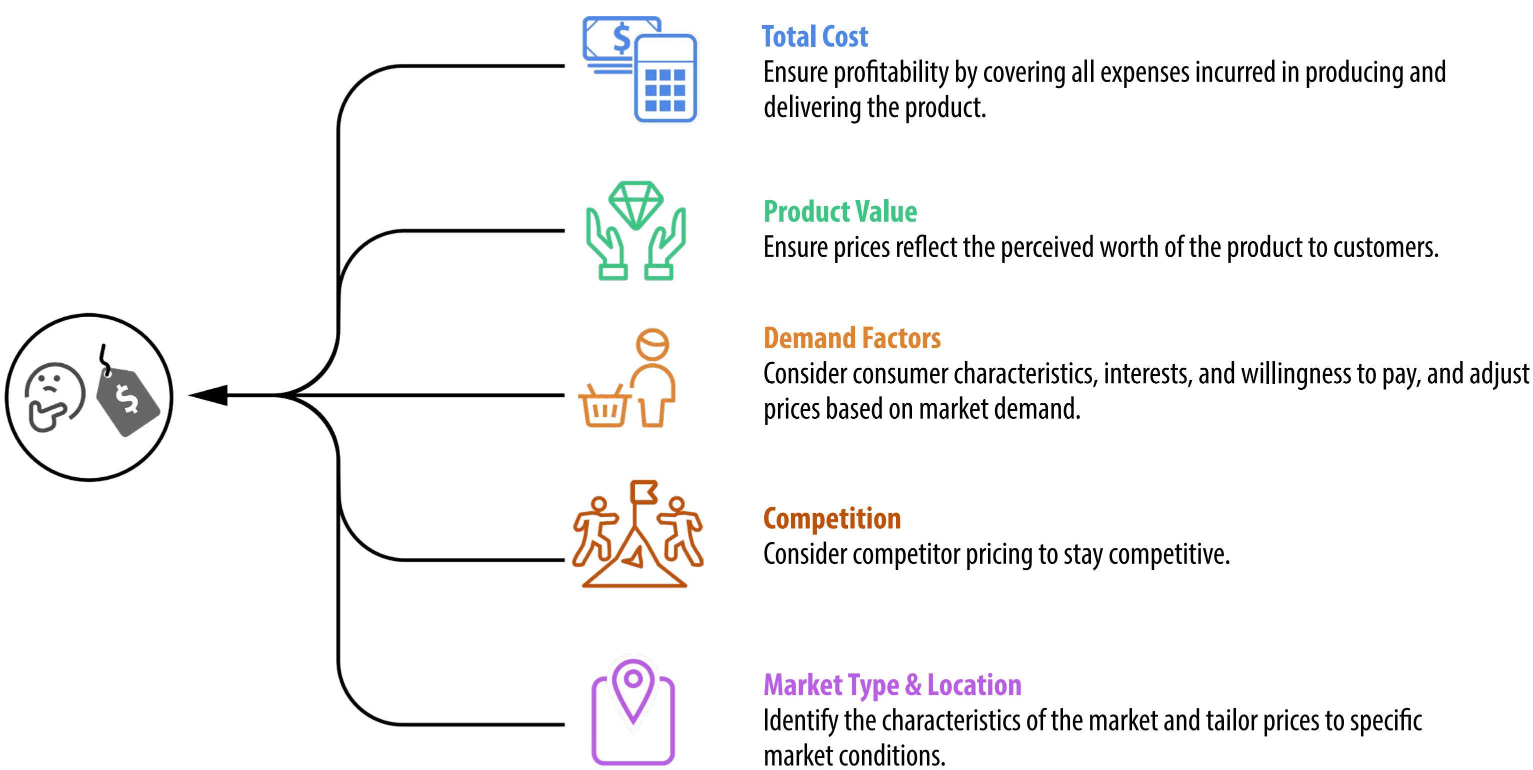
Your Costs

Always consider your break-even price as a starting point.

Product Value

How much do customers value your product? Keep in mind that the price of a product must be consistent with its perceived value in the eyes of customers. Value comes not only from the basic features of the product but also from what makes it different. Products with unique or special qualities can often be sold at higher prices because they offer more value to customers. Examples include certified organic or sustainably grown products, grass-fed or cage-free animal products, cottage foods with nice packaging or labels, or specialty varieties such as heirloom tomatoes.

Perceived value also comes from what surrounds the product, including things like customer service, convenience, recipes or cooking tips, and even the emotional connection customers feel to your farm story or their desire to support local producers. Prices should reflect this value. Generally, higher quality products can generate higher prices, while lower quality products bring lower prices. If you are offering high-value products with special attributes, avoid pricing them too low because that can send the wrong message about their value. However, keep in mind that consumers generally prefer lower prices, so it is important to observe market reactions and check in with your customers to learn how they respond to your prices, product presentation, and customer service.



Competition

It is important to pay attention to your competitors. Look for products similar to yours in your area, whether at grocery stores, food co-ops, or local farmers markets. What products are they offering? At what prices? Do they provide extra services or added value such as recipes, product bundles, or product boxes?

Examining your competitors can give you useful information about the local market. However, keep in mind that competing only on price is usually not the best strategy, especially for small producers who offer unique or higher quality products. Larger operations often have lower costs per unit and may serve different types of customers, so their pricing strategies may not apply to your situation. Instead, use competitor analysis as one of multiple pieces of information when making pricing decisions.

Demand Factors

These include consumer preferences and customers' willingness and ability to pay for your product. Understanding what your customers value, and what that is worth to them, is key. For example, do they care most about low prices (affordability), high quality, good taste, convenience, customer service, a unique experience, or supporting small and local farms?

It is also important to consider the socioeconomic status of your customers and how sensitive they are to price changes. This will help you gauge how much they can and are willing to pay. Identifying your target customer, which is the group of people most likely to buy your products, is essential for your marketing efforts. You need to know what kind of customers you want to attract and understand how, when, where, and why they make their purchasing decisions. This knowledge will help you set prices that meet customer expectations and needs.

Demand is also shaped by seasonality and broader market trends. For example, prices may increase during times of peak demand or when certain products are scarce, or they may decline when there are competing options available (substitute products). In addition, demand and prices may also follow health, lifestyle, or holiday trends.

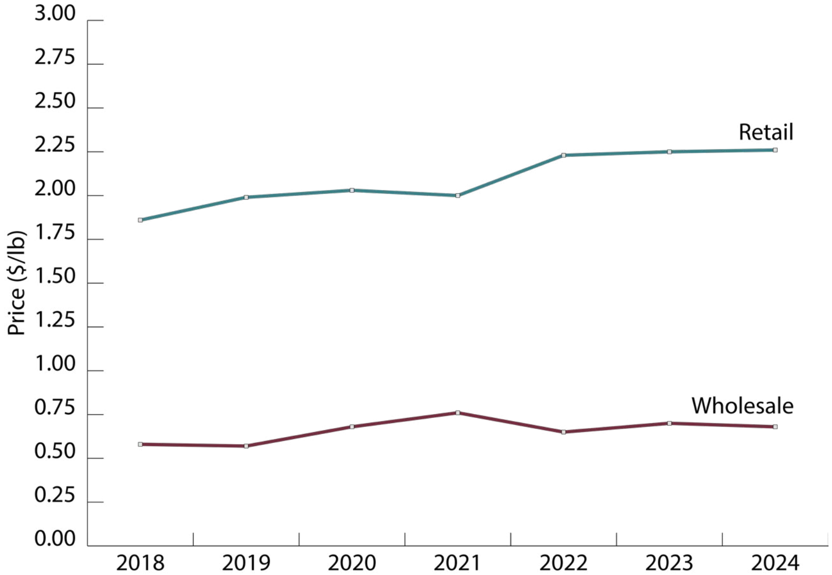
Type of Market and Location

Prices can vary widely depending on where you sell your products, whether in rural or urban areas, wholesale markets, farmers markets, or other direct-to-consumer outlets. These differences are due to the varying marketing, distribution, and packaging costs. If you sell through multiple outlets, make sure your prices reflect the unique costs of each market. For example, when selling at a farmers market, you need to account for transportation to and from the market, market fees, and labor. Labor costs should include your time traveling, setting up your tent, and selling at the farmers market. Generally, wholesale prices are lower than farmers market or other direct-to-consumer prices.

Wholesale and Intermediate Markets

Selling wholesale often means you have less control over prices, while selling directly to consumers gives you more control. To negotiate with wholesalers or retailers, it is important to be informed about the price ranges in your market. On average, farmers receive about 30% of the retail price for fresh vegetables and 40% for fresh fruit; however, this varies by product. For instance, USDA price-spread data indicates that farmers may receive around 80% of the retail price for carrots but only about 15% for potatoes. This means that, on average, if vegetables are selling for $2 per pound in the supermarket, you might receive around 60 cents per pound at the farm gate if selling to intermediate markets.

A helpful resource for tracking wholesale prices is the USDA Agricultural Marketing Service's My Market News Public Data. To illustrate, the following graph compares wholesale prices (which often include transportation and handling costs on top of production costs at the farm gate) with average retail supermarket prices for collard greens in the Southeast.



Year	Wholesale	Retail
2018	0.58	1.86
2019	0.57	1.99
2020	0.68	2.03
2021	0.76	2.00
2022	0.65	2.23
2023	0.70	2.25
2024	0.68	2.26

Wholesale and retail supermarket price comparison for collard greens in the Southeast. The graph shows the trend over time, and the table gives specific data used in the graph. Data source: Retail prices from USDA ERS Fruit and Vegetable Prices; wholesale prices from USDA AMS My Market News Terminal Market Report.

Direct-to-Consumer Markets

Prices are often higher when selling directly to consumers at farmers markets and farm stands or through community supported agriculture markets (CSAs). These prices can be comparable to or slightly above retail supermarket prices. For example, a farmer might sell a bunch of collard greens for $3 at a farmers market, while selling the same bunch wholesale could bring in about $1. The trade-off is that producers typically sell smaller volumes at higher prices in direct-to-consumer channels, while wholesale and intermediate markets allow for larger volumes but at lower prices.

Other Pricing Strategies

Once you set a price, you can change it as needed. Markets are dynamic, and you can adjust your prices using different strategies based on some of the factors discussed above. Other price strategies include these:

- **Discounts for bundles**: You can encourage customers to buy more by offering a deal on multiple items. For example, you might sell a single pint of blueberries for $5 but offer a bundle of three pints for $12. If you grow different types of berries, you could also let customers mix and match different berries in a bundle.
- **Volume management pricing**: Prices can also change depending on the season and availability. At the peak of production, when the supply is high, you may sell larger volumes at lower prices. Early or late in the season, when supply is lower, prices can be higher.

Summary

Keep good records and use your budget to understand your costs, knowing your cost is the foundation for setting a good price. Analyze the market to identify a price that your customers value and that allows you to make a profit in the long term.

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