



How Smart ARE You Really?

Pricing Through Profit Planning

Marketing Webinar for Direct Marketing Farmers

Session Assignment

The goal of this workshop is to help you understand how to appropriately price your products. By analyzing your costs, as well as your business goals, you will be able to set a pricing formula to determine the price of your products. Also, you should have an understanding of the impact of pricing strategies on your farm profitability.

Choose your main crop (whether it's a vegetable, fruit, livestock, etc) and complete this exercise.

1. Determine your profit goals for your farm.

- a. How will you split your 2 units and fit on the price/volume curve
 - i. Quality
 - ii. Service
 - iii. Price

2. Identify your farm goals: (for example: farm expansion plans, adding benefits for workers, etc.)

- a.
- b.
- c.

What do you estimate you will need from profits annually to cover your farm goals?

3. Identify your personal goals: (for example: retirement, college funds, vacation funds, etc.)

- a.
- b.
- c.

What do you estimate you will need from profits annually to cover your personal goals?

6. **Knowing your overhead expenses and goals for expansion, family living and future retirement determine the amount you need to earn in profits. (In the presentation, the speaker knew his overhead and divided that by his gross revenues. He then divided the value of the profits he needed by his gross revenue to determine what percent of his gross revenue needed to be allocated to profits. Finally, he added these two percentages together to arrive at his farm's margin.)**

Gross revenue:

Overhead:

Overhead/gross revenue = _____ = X%

\$ planned profit/gross revenue = _____ = Y%

X% + Y% = Margin

7. **Now that you have calculated the margin you will need to reach your profit goals, test your current pricing against your margin needs. Are you currently meeting your margin or do you need to make adjustments moving forward?**

Total variable costs per unit / (1 – margin) = unit price

8. **In other workshops you have looked at your consumer base and have an understanding of their characteristics. This will help you to determine where your price points will be. Use this knowledge to calculate your actual retail price based on the calculation of your price in step 5.**
9. **You are now ready to make the same calculations for your entire product line. Repeat steps 4 – 8 for each product you sell or plan to sell.**
10. **Compare the pricing arrived at through this exercise with your current product prices. How do they compare and how does the current pricing impact your stated profit goals for your farm?**