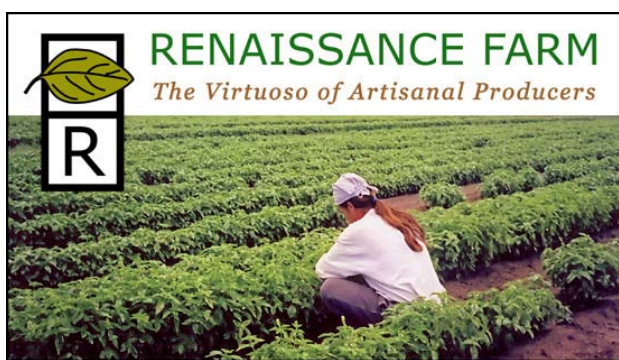


This article is the second in a new series intended to support emerging markets in Wisconsin's food and agricultural industries. Articles by AIC staff and guest writers and interviews with industry experts will appear at <http://fyi.uwex.edu/aic/insights> along with reader feedback and supplemental information.

Pricing Your Products for Retail and Wholesale Markets

By Mark Olson, Renaissance Farm



Pricing the product of your dreams is a very personal decision and one that should not be taken lightly. Ask many people who already sell to the market you are considering for their advice. This is your baby so ask lots of questions—if it doesn't work, you will have to get a job! That has always been my second greatest motivator, passion for what I do being the first.

The process of developing your product requires a lot of work before you ever get to sell it—and selling your baby is a very emotional experience. The first impulse for most is to be liked and that is directly translated into your product being purchased. This leads many businesses to set the price artificially low to ensure sales and good feelings. Over time, the work becomes less romantic and the dollars mean a lot more than they do at start up. Plan for a pricing structure that is real, and includes a complete assessment of your present and likely future costs to produce and distribute the

product. This will not only be a leg up on competitors but also be a strategy to survive long enough to become bored with the work and then to fall in love with it all over again.

Diverse Markets Require Distinct Attention

Twenty five years ago Renaissance Farm started field raising fresh herbs and processing them into pesto, which we sold at the Dane County Farmers' Market and to retail and foodservice accounts in Madison and the Twin Cities. As it happened that first year, another pesto maker needed basil for her product and we sold her some of our frozen basil base and entered the ingredient market. These four markets, direct, retail, foodservice and ingredient have been part of the long term success for Renaissance Farm.

Each of these markets has very different pricing structures and demands of support for your product. It is the last six words of the last sentence that will bite you once you diversify beyond selling directly to your end customer.

The Renaissance Farm Approach to Pricing

At Renaissance Farm, we are now just finishing the initial set up of a national distribution network for three of our product lines for the retail specialty and natural foods markets and are just beginning to set up the broker network to support that distribution. For the first twenty plus years we did direct marketing at the Dane

County Farmers' Market and distributed sales to the upper Midwest.

Test Your Market

When I start pricing a product, and it is a process for me, I start where I think I want the sell price to be. Then I go out and test the theory. I will hand someone who represents a retail customer a new product and ask them what they would be willing to pay for it. I then hand it to a grocer and ask them what they think the price should be. These types of "gut checks", where you ask open ended questions of your partners in the supply chain, can be very useful in guiding you to a selling price that will work for everyone.

Packaging

Your product includes your packaging, which will greatly influence your selling price point. To account for the value packaging adds to your product (and contributes to the cost of production), get a proto type as soon as you can. With digital printing you can get several pieces of your product's packaging for a few hundred dollars.

Choose Packaging that Fits your Market

Renaissance Farm started selling pesto in plastic containers and soon switched to glass. When we switched to glass packaging, sales increased in every direct and retail market we sold to, showing me early on that a change in packaging can most definitely affect your sell price. Because of the quality of our ingredients, we are always at the top of the pricing structure and we need to have the package image to support that price point. The package and the price point sell your product the first time and your quality will keep the product moving off of the shelf. In the food supply chain, product movement is king.

Consider your Equipment and Volume

I was recently involved in a conversation where three of us were trying to get at a selling price for a new product. If we buy a new machine, we can cut our costs and that will allow for a

certain price point. If we do not buy the machine we increase the labor cost and decrease the volume and the price point will be such and such. We then needed to guesstimate how much of the product we would sell at each price point, which in turn affects the decision to buy certain equipment or not, how big your market needs to be, and if you can be successful in the short and long run with either scenario. And in that endless search for perfection, this process may show another path that should be explored.

Learn How You Fit Into Your Supply Chain

One should consider assessing the needs and subsequent costs of each of your customers involved in a distinct supply chain. For example, when a customer buys a jar of Sweet Basil Pesto, I work with eight people that make it possible for that pesto to get on a dinner plate, each of whom are a customer to me. There is the sales manager (1) and brokers (2) who reel in the retail accounts (3). I have the truck driver (4) who picks up the product. There are the warehouse workers (5) who handle the jar of pesto. If they break it, I pay for it. Clear labels and good, protective packaging can help minimize damage during the shipping and warehousing process. I have a sales person (6) working for the warehouse who will need samples and sell sheets that have the main points of the product and its benefits for the retailer and their customer.

The delivery person (7) who stocks the shelves has needs involving neat displays and rotation of product and the more that they know the story behind the product the more careful they are likely to be. Finally there is the checkout person (8) who only wants the product to scan so the lines keep moving.

I want each of these people to handle the pesto with care because they know a bit about me. I call them by name, ask them how their day is going, and give them a cinnamon roll because we all know that sometimes things happen, and when they do, I want them to consider how that

affects my pesto on the way to a dinner plate. And then there is the retail customer, looking for a special Friday evening meal with their sweetheart. My pesto needs to be on your mind from some past experience or call to you when you walk past it at the retail level.

Your Pricing Structure Must Include the Real Costs of Selling Your Product

Each of these steps and objectives has a cost and all too often we producers gloss over these details that are needed to support our products. These will include trade shows for sales people, brokers, distributors and retail or foodservice accounts. There are consumer shows like the Food and Wine Shows or smaller more intimate “tastings.” There will be in house trainings for distributor sales staff. Make sure the warehouse staff gets some of the treats. There will be on site retail samplings for your customers and at least as important to me is that the store’s staff gets to sample the product, hear the rap and listen to their customers’ comments while sampling the pesto.

You do all of this work when you direct sell and most people are not aware that as they move past a one-to-one relationship between their work and their sales, they need to pay someone for the work that they are no longer doing. It is not a discount you are giving a distributor, but rather paying them for work that you no longer have to do.

When you are setting a price for a new product, consider the markets to which you hope to eventually sell this product and the costs that will be associated. If you are beginning with direct sales but think that you may eventually sell wholesale, work that cost in from day one. There are two reasons for this.

First, when you do eventually move toward a wholesale market, you’ll probably have already built a customer base. You risk losing those customers if you have to significantly increase your price to increased distribution costs.

Secondly, for as long as you are doing the work of all eight people in the supply chain, you should be getting paid to do that work. When you are ready to hire someone to help you with those tasks, you’ll have built in the money to pay them.

A quick tool I use to establish a retail price is to take my selling price and add a 25% margin for the distributor by dividing the cost of my product’s sell price by .75 and then taking that number and adding in the retail margin which will vary by store. For frozen products I add in a 30% margin by dividing by .70. Double check what your distributors’ and retailers’ margins are.

When you sell your product to the distributor for \$1.00 they will add a 25% margin and will in turn sell it to the retail account for \$1.34. The retail customer will purchase your wonderful product for \$1.99, a 30%+ margin. They always round up.

Author Biography:

Mark Olson is the owner of Renaissance Farm, Inc., an award-winning artisanal food producer located in Spring Green, Wisconsin. Family-owned since 1985, the company’s products include seven varieties of all-natural pesto, herb-infused extra virgin olive oils, super premium pesto vinaigrettes, pasta salad dressings, Zalta herb-infused sea salts and cinnamon rolls.

Forthcoming AIC Insights:

“Getting Started as a Specialty Food Processor” by the AIC’s Anne Pfeiffer