



## Market Ready Farm to Restaurant – A Conversation about Pricing

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There are many factors to consider before selling your farm products directly to restaurant owners, managers, and chefs. Marketing management is an important component in the startup and decision-making processes for new and beginning producers interested in direct sales. The purpose of this series of publications is to inform Virginia producers about marketing and legal risk management tools, techniques, and resources available to help them prepare to sell food and food products directly to restaurant clientele.

Topics covered in this paper are expected to improve producer decision-making by providing a better understanding of product pricing considerations to help them manage risks associated with the legal aspects specific to direct marketing relationships. The topics covered in this resource are not all-inclusive, but after reading this publication, producers should be better prepared to build relationships with restaurant clients.

This is one publication of a 7-part series, available on the Farm to Fork Direct Market portal. A resource list that include examples, resources, blog posts and case study YouTube video interviews of successful farm to restaurant business owners, and upcoming training dates is available at the end of this publication.

For questions about this or other farm startup topics, contact your local Virginia Cooperative Extension office.




Pricing is one of the hardest conversations for many people to have when developing a new business relationship. There are social aspects: neither the buyer nor the seller wants to offend the other party by going too high or too low. Then there are the production aspects: what are the costs involved? Does the arrangement allow both the buyer and the seller to turn a reasonable profit? Finally, there are the economic considerations: Is there any way to use markets to help receive a price premium for the product? Does the product have any special characteristics such as....(add examples of product attributes) that would add or detract from its fair market price? Pricing is complicated, and while some farmers may find math intimidating, achieving skills and techniques related to product pricing will result in overall gains to farm profitability when selling to restaurants.


When pricing their products, farmers must keep in mind that price serve to communicate the value of their individual product offerings, and may be higher or lower compared to competitors, depending on the inputs used to produce, process, package, label,

# PRICING

## CONSIDERATIONS


PROPER PRICING IS ONE OF THE FUNDAMENTALS OF DIRECT MARKETING

-  Social Implications
-  Production Aspects
-  Economic Factors



## PRICING PROCESS

1. Find cost of production
2. Decide desired profit margin
3. Calculate sale price



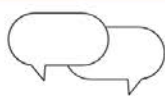
## CALCULATING SALE PRICE




$$\text{Sale Price} = \frac{\text{Variable Costs}}{100} - \text{Desired Margin}$$

## FACTORS AFFECTING PRICE

- Industry grading practices
- Differentiated marketing techniques such as organic, natural, & local
- Product certifications
- Perceived value of product

WHEN IT COMES TO PRICING, COMMUNICATION IS KEY BETWEEN PRODUCER AND RESTAURANT



deliver or store each item, which add up to encompass its final market value. Farmers should not charge unnecessarily high prices, as this damages consumer trust, but they should also not feel like they have to be the low-cost supplier if they are not providing a low cost product.

When starting the pricing process, the first thing a farmer must do is find their cost of production. Record production costs in two categories: variable costs and fixed costs. Variable costs include items such as fertilizer, fuel, hay, corn, and soybeans. Variable costs are the costs used to produce each individual unit and vary depending on the total number of units produced. Producing more units will increase the total variable costs, while the variable cost per unit regardless of number of units produced. Fixed costs include items such as mortgage payments, equipment, and insurance, and are constant regardless of number of units produced. Farmers must cover fixed costs whether they are producing or selling zero units of product or a million units.

Consider Beau Vine's cattle herd. Beau currently has 75 cows, but he's thinking of adding another 15, and he wants to know how this would affect his fixed and variable costs. If Beau adds more cows, his total variable costs will go up because he is producing more units. Each new cow and calf on his farm will require more feed, more pasture, and more labor. However, his per unit variable costs will not increase. Each new cow should require the same amount of feed on average as each of his old cows did. His fixed costs do not change. Beau's cows typically shelter in his barn during harsh winter weather. His barn can currently accommodate up to 100 cow-calf pairs. If Beau adds the 15 cows he's considering, it won't change his fixed costs at all, because he already owns the barn. He could have 100 cows, 90 cows, 75 cows, or zero cows without changing the costs associated with his barn at all. If he went over the 100 cows he

currently has space for, then his fixed costs would increase, but they wouldn't increase with every per unit change.

Once farmers have a good idea of their costs, the math behind pricing becomes straightforward using basic formulas. First, farmers must decide on their desired profit margin; that is, how much of the final price of the product should be profit? Sale price should be equal to your variable costs, divided by 100% minus the desired margin. This price will cover variable costs while allowing for the desired profit margin (Nartea and Morgan, 2015).

Farmers must also consider the financial situation of their restaurant clients. First, for a business relationship to be stable, both parties must identify benefits, which in most cases means both parties are making a reasonable profit. In the restaurant industry, margins are typically only 5-10% of gross revenue (add citation?), so farmers should be aware of the financial constraints placed on individual restaurants when negotiating a fair price.

When pursuing potential restaurant clients, farmers must consider how the restaurant's price point compares to theirs. Rob Harrison of [Foods for Thought, Inc.](#) discusses this in his [interview](#) with Virginia Market Ready. He says that whenever he goes out to eat, he is always looking for potential clients. However, since he sells natural, grass-fed beef, he has to limit the clients he approaches to ones that are able to afford his beef, which usually means his clients are classified as fine dining/upscale restaurants. For the whole story, watch his interview on the [Virginia Market Ready YouTube channel!](#)

When setting prices, farmers must also consider any special characteristics of the product that could result in a higher or lower price. With some foods items, such as meats, dairy, and produce, this process is simplified using common language based on grading practices

established by the U.S. Department of Agriculture [Commodity Standards and Grades](#) and [Agricultural Marketing Services](#). While these standards are typically only required for large-volume buyers such as grocery stores, military institutions, restaurants, and foreign governments, restaurants may prefer to communicate with sellers who are familiar with specific quality standards and definitions. Packaged foods are required to follow U.S. Food and Drug Administration label requirements (VCE, 2012), yet regulations vary in the case of fresh produce, meats, and dairy based on location, annual farm sales, and product type. Should farmers choose to differentiate product offerings by using organic, natural, and local, labels, it is important to recognize which require official certification. For example, organic product claims are required to follow rules and processes, listed in the [National Organic Program Handbook](#). Many farmers charge a premium for such products, but not all do, and the amount of the premium is not consistent (Kremen et al. 10). By the same token, customers don't all have the same willingness or ability to pay extra for these products. As with many other aspects of the direct sale process, communication between farmers and buyers is key. This allows farmers to find out what chefs value, as well as allowing both parties to reach a price that they feel accurately reflects the value of the product to the restaurant and to the final consumer.

Finally, once both parties settle on a price, they must be clear in communicating it to the consumer. This communication may be in the form of a formal contract or an informal written agreement. If prices change regularly, we recommend that farmers provide a periodic price list shared via preferred communication channels (email, fax) on a regular basis with their buyers. Farmers should inform their restaurant clients of current prices, and be prepared to answer questions about factors influencing price changes whether planned or unexpected.

Proper pricing is one of the fundamentals of direct marketing, and may ensure stable, desirable farm profits and result in creation and maintenance of long, fruitful relationships with repeat customers.

For more information about direct marketing of your farm products in Virginia, please contact Kim Morgan at [klmorgan@vt.edu](mailto:klmorgan@vt.edu) or 540-231-3132, or, visit the Farm to Fork Direct Marketing Resources portal at [ext.vt.edu/agriculture/market-ready.html](http://ext.vt.edu/agriculture/market-ready.html). For more information and resources directly aimed at beginning farmers, visit the Virginia Beginning Farmer and Rancher Coalition Program at [www.vabeginningfarmer.org](http://www.vabeginningfarmer.org).

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SOUTHERN  
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VIRGINIA  
Beginning Farmer & Rancher  
COALITION PROGRAM



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## Resources

Garber, B. 17 May 2017. Interview with Rob Harrison, Owner of Foods for Thought, Inc. Link: [https://www.youtube.com/watch?v=93vxU9R\\_FV0](https://www.youtube.com/watch?v=93vxU9R_FV0)

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Virginia Cooperative Extension Market Ready Farm-to-Fork Direct Marketing Resources portal.

2019. Link: <https://ext.vt.edu/agriculture/market-ready.html>

Virginia Cooperative Extension Market Ready Farm-to-Fork Direct Marketing Resources

YouTube Channel. 2019. Link:

<https://www.youtube.com/channel/UCnlhujb2Yq966WytPz4GuEw>

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