FACT SHEET

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PRICING IN AGRIBUSINESS

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Pricing decisions in agriculturally related businesses are becoming increasingly difficult. A firm's management must realize that there are different pricing bases for different objectives. The fact that this has been overlooked, in recent times of great economic and marketing uncertainty, has resulted in pricing actions by some firms which cannot be logically explained, to owners or to customers.

Pricing Objectives. Some of the common pricing objectives are:

- *Profit* – To maximize net returns on investment and sales.
- *Penetration* – To maximize share of the market.
- *Stabilization* – To exercise a stabilizing influence on prices in the market area, or even throughout the distribution system for the product or service.
- *Prestige* – To carve an exclusive niche in the market area for the product or service.
- *Recovery* – To recover investment as quickly as possible.
- *Public Relations* – To create a favorable image of the firm.
- *Competition* – To follow the leadership of competitive firms.

Bases for Pricing. Bases which frequently are used for setting prices are:

- *Full-cost pricing* – Some businessmen believe the price on each product must cover all the costs (fixed and variable) of that product. This means the price covers labor, materials, overhead costs, and a predetermined profit percentage. This method does not give as much weight to competition as some other methods.
- *Flexible Markups*–When this method is used, full costs are used as a minimum below which the price will not be allowed to fall–a reference point to which flexible markups are added. The degree of competition and the changes in demand for individual products determine how flexible pricing will be.
- *Pricing With Product Costs Unknown* – Full costs cannot be computed easily in some agribusinesses. Some garden and landscape nurseries are in this category. Figuring the labor costs, overhead and funds tied up in products which require several years to grow is difficult to compute precisely. In such cases, pricing is influenced heavily by demand and competition.
- *Gross-margin Pricing* – A widely used pricing method is that of adding a markup which is a percentage of the wholesale cost, or by setting markup as a percentage of sales price.

Firms successfully using this method of pricing usually do not apply the same markup on all items. It is more profitable to observe the effect of different prices on sales volume and then decide which products will bear which markups. A few illustrations of markup percents follow:

If you want to make a gross profit of	Add to the wholesale cost price
50%	100%
40%	66 2/3%
35%	53 4/5%
30%	42 6/7%
25%	33 1/3%
20%	25%
15%	17 2/3%
12½%	14 2/7%
10%	11 1/9%
8%	8 2/3%
5%	5 1/4%

- *Suggested and "Going Rate Prices"* – Some small firms use prices suggested by manufacturers or wholesalers. Other small firms simply follow the prices set by similar firms in their locale. This pricing method is the easiest to implement.

Pricing Policies. Pricing policies for a firm result from the combination of a pricing objective or objectives and the basis or bases to achieve same.

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Policies are most useful when stated in written form and when all sales personnel understand and appropriately use them when dealing with customers.

Pricing policies should be reviewed and changed as often as conditions warrant. A review should take place at least annually.

REFERENCES

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