

## Determining Pricing for Small Grains



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## HOW MANY HAVE A PRICING STRATEGY?



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Fresh Promotions



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### Seven Line Pricing Strategy



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## Production



- Variable
- Fixed



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## Storage

- Variable
    - Utilities
    - Labor
    - Repair and maintenance
    - ???
  - Fixed
    - Bin
    - ???
  - Shrink
- Table values



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## Processing

- Equipment
  - Variable
  - Fixed
- Costs
  - Variable
    - Supplies
    - Labor
    - ?????



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## Marketing

- Promotion
- Contacting Customers



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## Distribution

- Transportation
  - Variable
  - Fixed



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## Profit

- How to include?



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## Profit Calculations

- Return on Investment
- Markup Pricing:
  - Selling Price = Cost of Goods Sold + (Markup % x Cost of Goods Sold)
- Gross Margin:  $\text{Selling Price} = \frac{\text{Cost of Goods Sold}}{1 - \text{Desired GM}}$



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7 Line Pricing Strateg	30	Acres of Barley	
Total Amount Available for sale:	3000	bushels	
Production cost	\$13,773.30		
Storage			
Processing			
Marketing			
Distribution			
Total Costs			
Profit			
Total Estimated Costs			
Price per unit			



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### Storage

Months in Storage			
Bushels	Months in Storage	Storage Cost per bu.	Total Storage Cost
600	3	0.1582	\$94.92
600	5	0.2104	\$126.24
600	6	0.2365	\$141.90
600	7	0.2626	\$157.56
600	9	0.3148	\$188.88
			\$709.50



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Production cost	\$13,773.30
Storage	\$709.50
Processing	\$0
Marketing	
Distribution	
<b>Total Costs</b>	



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Marketing Costs	
Brochures	\$150
Banners	
Phone	\$50
Media Ads	
Visiting Users	\$180
Total	\$380



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Production cost	\$13,773.30
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Marketing	\$380.00
Distribution	



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Distribution Costs			
Distance to Delivery		100 miles round trip	
Number of trips made		5	
Time necessary to deliver		4 hours	
Labor Rate per hr.		\$10.00	
Transportation	\$288		0.575 \$/mile
Labor	\$200		
Total	\$488		



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Production cost	\$13,773.30
Storage	\$709.50
Processing	\$0
Marketing	\$380.00
Distribution	\$487.50
Total Costs	\$15,350.30



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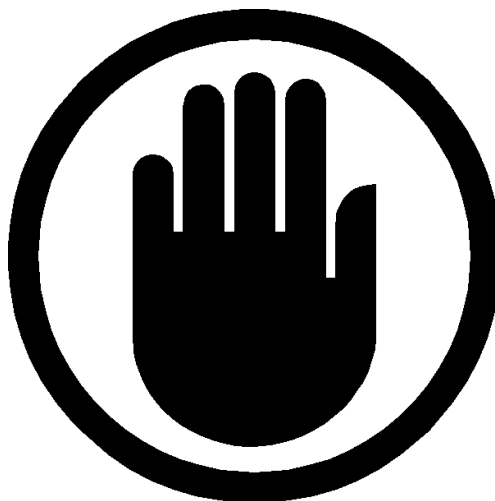
## The Result

7 Line Pricing Strategy	30 Acres of Barley		
Total Amount Available for sale:		3000 bushels	
Production cost	\$13,773.30		
Storage	\$709.50		
Processing	\$0		
Marketing	\$380.00		
Distribution	\$487.50		
Total Costs	\$15,350.30		
Profit	\$5,116.77	Desired Margin	25%
Total Estimated Costs	\$20,467.07		
Price per unit	\$6.82		



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## The Result

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## Conclusions

- The good
- The bad
- ????????

<https://www.youtube.com/watch?v=AFa1-kciCb4>



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## Other Pricing Strategies

- Premium Pricing
- Value Pricing
- Competitive Pricing
- Penetration Pricing

From: *Selecting an Appropriate Pricing Strategy*, Univ. of Missouri, <http://extension.missouri.edu/p/G649>



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## Premium Pricing

- Product has one or more unique characteristics
- Greatly differentiated in the market
- Short term strategy
- Examples?



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## Value Pricing

- Priced a bit lower than premium products
- Best used when:
  - only a few competitors exist
  - potential customers value the benefits provided by the product
- Examples?



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## Competitive Pricing

- Identify and record competitors' prices
- Maintains price status quo
- Examples?



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## Penetration Pricing

- Launches a product in a market with several competitors
- Initially, price is low to gain market share
- Examples?



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Strategy	Substitutes	Entry Barriers	Price Sens.	Economies Of Scale	Goal
Premium	None	Very high	None	None	High/unit margin
Value	Few	High	Low	Low	Profit
Cost/plus	Some	Medium	Medium	Medium	Market share and prof
Competitive	Many	Low	High	High	Protect market share
Penetration	Many	Low	High	High	Market growth and leadership

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## Summary



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