Determining Pricing for Small Grains

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HOW MANY HAVE A PRICING STRATEGY?

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Seven Line Pricing Strategy

The Price

Production
Storage
Processing
Marketing
Distribution
Profit

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

Profit

- How to include?

Profit Calculations

- Return on Investment
- Markup Pricing:
  - Selling Price = Cost of Goods Sold + (Markup % x Cost of Goods Sold)
- Gross Margin: Selling Price = Cost of Goods Sold

  $$\text{Selling Price} = \frac{\text{Cost of Goods Sold}}{1 - \text{Desired GM}}$$

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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	
Total Costs	

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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
Storage	$709.50
Processing	$0
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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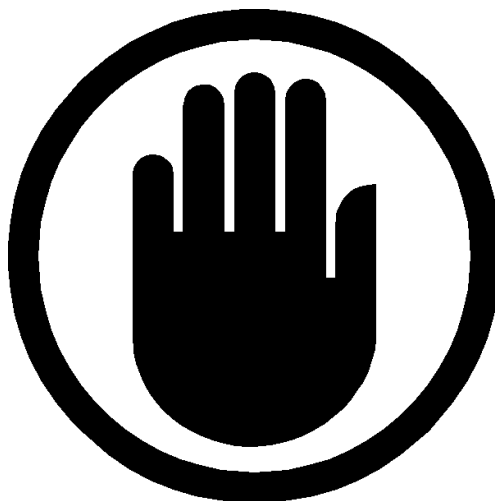Capital Area Agricultural and Horticultural Program

The Result

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Marketing	$380.00		
Distribution	$487.50		
Total Costs	$15,350.30		
		Desired Margin	
Profit	$5,116.77		25%
Total Estimated Costs	$20,467.07		
Price per unit	$6.82		

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The Result

7 Line Pricing Strategy		30	Acres of Barley
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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

Premium Pricing

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

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?

Competitive Pricing

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

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

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

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Summary

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