



# ***Pricing for Profit: Tips for Success***

Maine Food Strategy  
Pricing Webinar  
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# ***Marketing Strategy***

## **❖ Target market**

- **Demographics**
- **Lifestyle Patterns**
- **Customer Expectations**

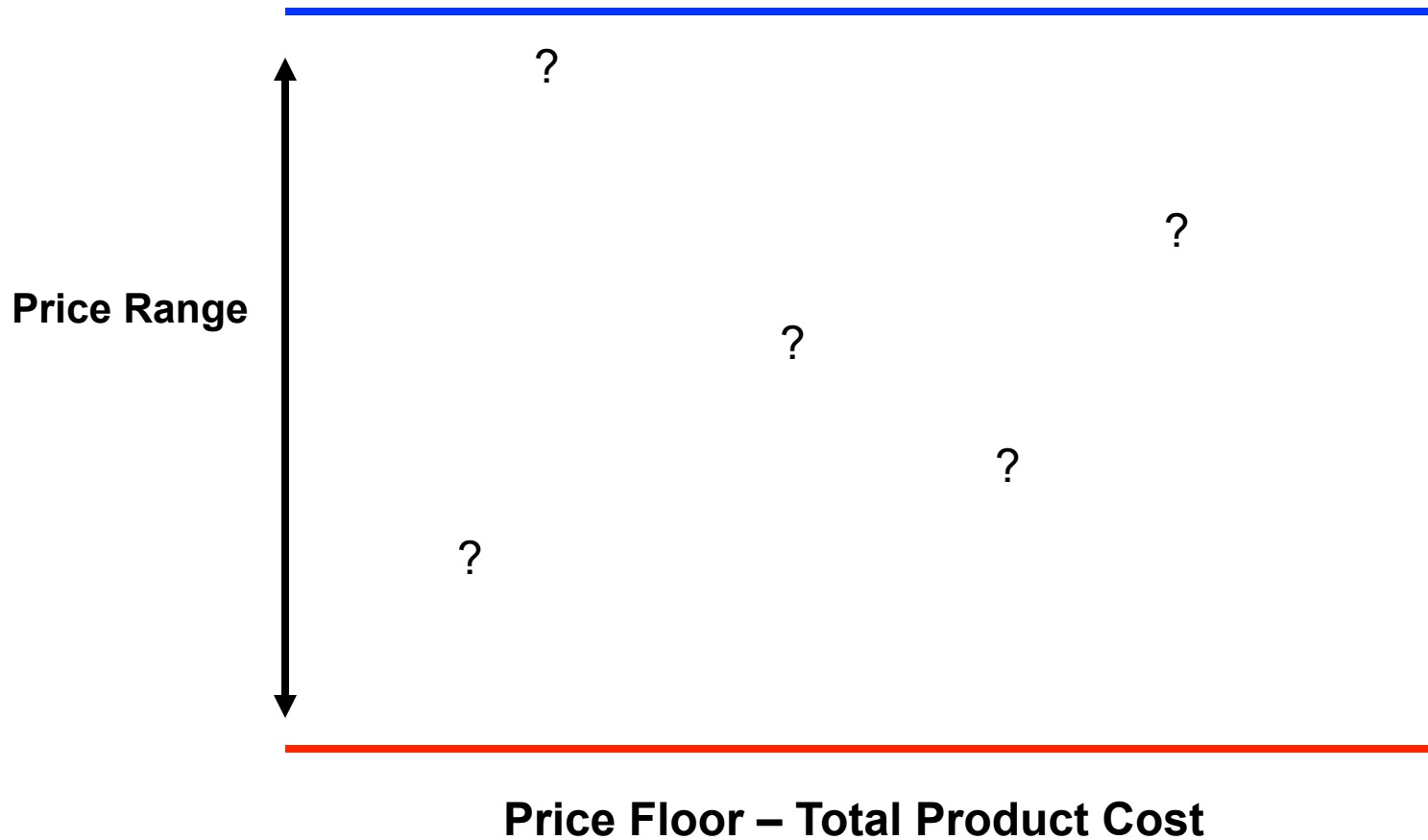
## **❖ Marketing mix**

- **Product**
- **Place**
- **Promotion**
- **Price**
- **Position**

## ***Pricing Impacts Profitability***

Price → Sales → Profit

## Price Ceiling – Maximum Consumers Will Pay



## ***Key Factors That Effect Pricing***

- **Your business goals**
- **Your product costs**
- **Your customer's expectations**
- **Product quality and uniqueness**
- **Market conditions**
- **Your method of selling**

## ***Know Your Costs***

- **Develop a good financial record keeping system**
- **Keep track of all costs associated with the production and marketing of your products**
- **Separate costs into two categories:**
  - **Variable expenses**
  - **Fixed/Overhead expenses**
- **Organize by enterprise centers**
- **Consult enterprise budgets as a guide**

## ***Know Your Costs***

- **Recheck expenses on a regular basis**
- **Identify key expenses and watch closely**
- **Track all labor time, especially your time, using an activity log,**
- **Calculate costs for all of your products and use this information in setting your prices**

## ***Know Your Customers***

- **Identify the customers you are trying to attract**
- **Develop a customer profile:**
  - ✓ **Demographics**
  - ✓ **Lifestyle patterns**
  - ✓ **Expectations**
- **Actively seek feedback from your customers**
- **Set the right prices for your target markets**



## ***Know Your Competition***

- **Identify key competitors**
- **Determine the customers they are serving**
- **Identify key factors to evaluate such as price, product selection, quality, etc.**
- **Identify your unique advantages**

## ***Price Your Products for Profit***

**Your prices should be high enough to cover all of your costs including your labor and management costs and...**

- Include a reasonable profit**
  - $P = \text{Overhead exp} + \text{material exp} + \text{Labor exp} + \text{Profit}$**
- Price for your specific target market**
- Base your pricing on costs**
- Set your wholesale price first**

## ***Know the Difference Between Markup & Margin***

For example...

Unit Cost = \$1.00

Selling Price = \$2.00

**Markup** = \$2.00 - \$1.00 =  $(\$1.00/\$1.00) \times 100 = 100\%$

**Margin** = \$2.00 - \$1.00 =  $(\$1.00/\$2.00) \times 100 = 50\%$

## ***Markup vs. Margin Example***

Assume the unit cost of a product is \$1.00:

If you use a **markup** of 50%, your SP would be:

$$SP = 1.50 \times \$1.00 = \$1.50$$

If you use a **margin** of 50%, your SP would be:

$$SP = \$1.00 / .50 = \$2.00$$

## *Uncle John's Mango Preserves*

- Cost to produce one 12 oz. jar = \$2.15 (50% margin)
- Gourmet food store buys it for = \$4.30 (50% margin)
- Gourmet food store sells it for = \$8.60
- ✓ If you hired a distributor, you might have to pay \$1.30/jar
- ✓ Should get your cost down to \$1.50 to maintain 50% margin. Otherwise margin falls to 28%



## ***Final Thoughts...***

- **Base your pricing strategy on both the product costs and the marketing environment**
- **Actively assess your markets on an ongoing basis**
- **Emphasize your product's attributes and uniqueness**
- **Be fair to yourself and your customers**

## ***Selected Pricing Resources***

Iowa State University: *Pricing for Profit*

<https://www.extension.iastate.edu/agdm/wholefarm/html/c1-55.html>

Penn State University: *Food for Profit: Price and Pricing*

<https://extension.psu.edu/food-for-profit-price-and-pricing>

Michigan State University: *Pricing Your Food Product for Profit*

[http://msue.anr.msu.edu/news/pricing\\_your\\_food\\_product\\_for\\_profit](http://msue.anr.msu.edu/news/pricing_your_food_product_for_profit)

Virginia Cooperative Extension: *Smart Pricing Strategies*

<https://pubs.ext.vt.edu/2906/2906-1324/2906-1324.html>

UMaine Cooperative Extension *Resources for Food Entrepreneurs*

[www.extension.umaine.edu/business/specialty-foods/](http://www.extension.umaine.edu/business/specialty-foods/)



***Thank-You!***

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