



# Strategic Product Pricing

## *Pricing for Profit*

GAIL NICKEL-KAILING, GOODFOOD WORLD AT HOME



NATIONAL CENTER FOR  
APPROPRIATE TECHNOLOGY

— EST 2010 —  
GoodFood World  
*at home*

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## What we'll cover today...

- ▶ Pricing reflects your brand, your positioning, your messaging
- ▶ Your "total cost:" ingredients, labor, packaging, overhead, and margins
- ▶ How to price strategically for a logical and competitive price point



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## What can/will affect your pricing?

- ▶ Packaging (including containers, labels, cartons, etc.)
- ▶ Your target retailer's positioning: local retailer vs Whole Foods
- ▶ Specialty product? Commodity product?
- ▶ Shelf-life and your final price - chargebacks/discounts for waste
- ▶ Sourcing and efficiency of scale
- ▶ Pricing is just part of selling a product – taking orders, delivery, invoicing



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## The dreaded details

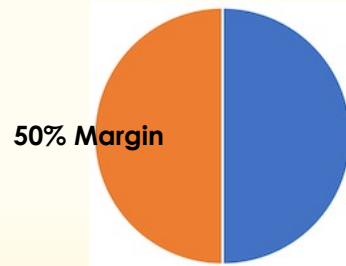
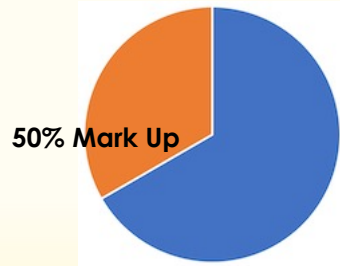
- ▶ Weight vs measure
  - Cups & spoons vs ounces or grams
  - Which is better?
  - Why?



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## The dreaded details



### ► Margin vs mark up

- Cost + mark up = final price  
\$3.00 cost + 50% markup = \$4.50
- Cost x margin = final price  
\$3.00 cost + 50% margin = \$6.00



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## Example: Oh, goodie, I can charge that much!



**Seylou**  
Whole Grain Bread  
\$11 each  
Washington DC



**Sunflower Bakery**  
Classic Sourdough  
\$6 each  
Helena MT



**Stonewall Kitchen**  
Red Pepper Jelly  
\$8.99 each  
13 ounces



**Eat This**  
Blueberry Cardamom  
Preserves  
\$9.99 each  
7 ounces



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## Let's back up a little...

### Who are you? Who do you want to be?

- ▶ Who are your competitors?
  - Your competition is anything your customer will substitute for your product.
- ▶ What does your competition charge? Why not "price match?"
  - While it's easy to just charge what "the other guy/gal" charges; it's likely to get you in trouble. Do they have the same costs, distribution channel, and target customer base?
- ▶ What about "cost plus" or "value-based pricing?"
  - Determine how much value your customers see your product having... What is your "value-added?" Jam is jam is jam... what makes yours different? Why should they spend more for yours?



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## Pricing thoughts...

- ▶ Cost-plus pricing assumes you sell all units. Recalculate your break even point and see how many you **have** to sell...
- ▶ Value-base pricing means that your price is based on what the customer is willing to pay to get **YOUR** product.
- ▶ **Watch your costs** like an eagle! It's easy to ignore small increases in ingredients until it's too late.
- ▶ **Watch the market price** for your and your competitors' products/ Prices fluctuate – and be sure to include promotional pricing in the mix.
- ▶ Develop close consumer relationships (social media is perfect for this) to **understand** what **your target customer** is looking for.



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## Product costing/pricing tool

Ingredients Costs for Single Batch: XXXXX								
Ingredients	Ingredient Cost	Freight Cost	Total Cost	Total Units	Units	Per Unit Cost	Units in Recipe	Batch Cost
Ingredient 1					oz			
Ingredient 2					oz			
Ingredient 3					oz			
Ingredient 4					oz			
Ingredient 5					oz			
Ingredient 6					oz			
Batch Total								
Packaging Costs for Single Batch: XXXXX								
Packaging/Labels/Cartons	Packaging Cost	Freight Cost	Total Cost	Total Units	Units	Per Unit Cost	Units in Recipe	Batch Cost
Container					ea			
Lid					ea			
Front Label					ea			
Back Label					ea			
Case					ea			
Carton					ea			
Packaging Total								
Labor Costs for Single Batch: XXXXX								
Labor Costs	Hourly Rate	Benefits	Total Cost	Total Units	Unit	Per Unit Cost	Units in Batch	Batch Cost
Production					ea			
Fill/Seal/Label					ea			
Pack Cases					ea			
Pack Shipping Cartons					ea			
Labor Total								

Three Key Sections

1. Ingredient Cost
2. Packaging Cost
3. Labor Cost

Time to talk about what you discovered.

Questions?



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## Ingredients Cost

Ingredients Costs for Single Batch: 1000								
Ingredients	Ingredient Cost	Freight Cost	Total Cost	Total Units	Units	Per Unit Cost	Units in Recipe	Batch Cost
Ingredient 1	\$43.45	\$4.35	\$47.80	800	oz	\$0.060	5600	\$334.565
Ingredient 2	\$95.00	\$9.50	\$104.50	664	oz	\$0.157	2000	\$314.759
Ingredient 3	\$49.75	\$4.98	\$54.73	400	oz	\$0.137	6000	\$820.875
Ingredient 4	\$87.95	\$8.80	\$96.75	960	oz	\$0.101	2000	\$201.552
Ingredient 5	\$48.15	\$4.82	\$52.97	400	oz	\$0.132	1000	\$132.413
Ingredient 6	\$178.75	\$17.88	\$196.63	800	oz	\$0.246	400	\$98.313
Batch Total								\$1,902.476

Step 1: Complete red box

Step 2: Add the **Ingredient Cost** to the **Freight Cost** to get the **Total Cost**

Step 2: Divide **Total Cost** by **Total Units** to get the **Per Unit Cost**

Step 3: Multiply **Per Unit Cost** by **Units in Recipe** to get **Batch Cost**



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## Packaging Cost

Packaging Costs for Single Batch: 1000								
Packaging/Labels/Cartons	Packaging Cost	Freight Cost	Total Cost	Total Units	Units	Per Unit Cost	Units in Recipe	Batch Cost
Container			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Lid			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Front Label			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Back Label			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Case			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Carton			\$0.00		ea	#DIV/0!	1000	#DIV/0!
<b>Packaging Total</b>								#DIV/0!

Step 1: Complete red box

Step 2: Add the **Packaging Cost** to the **Freight Cost** to get the **Total Cost**

Step 3: Divide **Total Cost** by **Total Units** to get the **Per Unit Cost**

Step 4: Multiply **Per Unit Cost** by **Units in Recipe** to get **Batch Cost**



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## Labor Cost

Labor Costs for Single Batch: 1000								
Labor Costs	Hourly Rate	Benefits	Total Cost	Total Units	Unit	Per Unit Cost	Units in Batch	Batch Cost
Production			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Fill/Seal/Label			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Pack Cases			\$0.00		ea	#DIV/0!	1000	#DIV/0!
Pack Shipping Cartons			\$0.00		ea	#DIV/0!		#DIV/0!
<b>Labor Total</b>								#DIV/0!

Step 1: Complete red box

Step 2: Add the **Hourly Rate** to the **Benefits** to get the **Total Cost**

Step 3: Divide **Total Cost** by **Total Units** to get the **Per Unit Cost**

Step 4: Multiply **Per Unit Cost** by **Units in Recipe** to get **Batch Cost**



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## Calculating margins in the distribution channel

Channel Pricing				
Channel includes distributors				
Channel margins are rough estimates based on grocery categories				
Channel margins	Margin			Multiplier
Your Wholesale Margin %	38%			1.61
Distributor Margin %	28%			1.39
General Retailer Margin %	40%			1.67
Whole Foods Margin %	42%			1.73
The tool below calculates what the retail cost would be based on channel margins and your wholesale margin.				
Price analysis				Markup
Your wholesale price	\$0.00			\$0.00
Distributor price	\$0.00			\$0.00
Retail price	\$0.00			\$0.00
Whole Foods Retail price	\$0.00			\$0.00
The tool below works backward, calculating how much "budget" for product cost you would have based on a target shelf price.				
Target price analysis - through distributor				
Target retail price	\$6.99			
Target distributor price	\$4.19			
Target wholesale price	\$3.01			
Target product cost	\$1.87			

### Three Key Sections

1. Your wholesale margin %
2. Distributor's margin %
3. General retailer margin %

(Bonus) WFM margin %

Cost plus vs target shelf price – calculate from both directions...



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## It's not over with product price, there's more...

- ▶ Shelf-life and your final price
  - Short shelf-life product – chargebacks, discounts
- ▶ Promotional Discounts
  - Promotional calendar
  - One-time discount
  - Volume discounts
- ▶ Taking orders, delivery, invoicing
  - How do you plan to take orders? Email, website, etc.
  - Will you be doing your delivery? Will you be using a common carrier?
  - Invoice on shipment
  - Payment terms



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## Resources

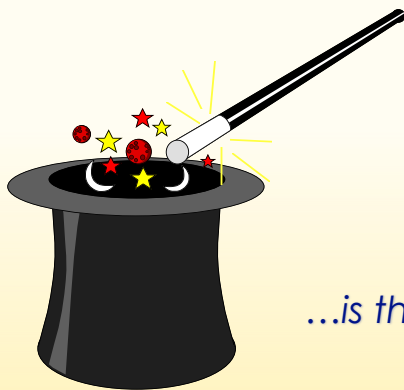
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## Questions?



*The greatest problem in  
communication...*

*...is the illusion that it has taken place!*



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Thank you!



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