

Pricing Your Product

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When presenting your product to a potential buyer, often the first question is...

How Much?

How does one establish pricing?

- Cost of Goods
- Cost of Sales Opportunities
- Other Business Expenses
- Profit
- Acceptability of Price in the Marketplace

Cost of Goods

- Do you know your cost of goods?
- How much did you spend to produce your olive oil?
- What are your packaging costs?

Cost of Goods

Cost of oil includes:

- Cultivation – 1 year of irrigation, fertilizers, pest control, etc.
- Harvest – laborers, equipment rental
- Transportation of olives to mill
- Milling
- Bulk containers
- Transportation of bulk oil
- Storage

Cost of oil does NOT include land or trees

Cost of Goods

Cost of packaging includes:

- Bottle
- Label
- Closure
- Bottling expenses
- Case/Carton for bottles

Cost of packaging does NOT include expenses for shipping to customers.

Cost of Goods

If you don't track your cost of goods, you will never know if your business is profitable.

What does the IRS call a business that isn't profitable?

A Hobby!

Cost of Sales Opportunities

What are sales opportunities?

- Website – online sales
- Demos
- Events, festivals
- Discounts
- Distributors
- Brokers

Other Business Expenses

- Overhead: office and warehouse rent, wages
- Administration: bookkeeping, office maintenance, phones, internet
- Financial: bank fees, loan service
- Marketing: print materials, website, trade shows
- Public Relations (activities leading to media exposure e.g. *product donations for fundraisers*)
- Memberships – COOC (*very important!*)

Price Acceptability

Each market segment has a different range of acceptable pricing.

- ◆ Grocery
- ◆ Specialty
- ◆ Foodservice

Completing a Price Survey will indicate the range that is acceptable in a specific segment.

Price Surveys

For example, let's say that Whole Foods is a sales target for your brand. To do a price survey, go to a Whole Foods store and record the price of every bottle of *extra virgin olive oil* that is on the store's shelf on that day.

No need to include other grades of olive oil: they are not your competition!

Price Survey

Whole Foods Mill Valley 10/9/10 (partial)

label name	harvest or best by date	country/region of origin	bottle size	retail price	notes
365 brand 100% Australian		Australian	1 liter	9.99	
Bragg Organic		Greek	500 ml	9.69	USDA Cert. Organic
Colavita		Italy	250 ml	5.99	Rate: \$4.99. CERMET certified "authentic"
Colavita		Italy	500 ml	10.69	Rate: \$8.79. CERMET certified "authentic"
Spectrum Organic		Spain, Argentina	236 ml	7.39	
Spectrum Organic		Spain, Argentina	236 ml	8.99	
Miguel Valentino		Spain, Argentina	500 ml	19.99	SIJANA Cert. La Fair Silver
Bragg		? Could not find.	946 ml	15.99	USDA Cert. Organic Arbequina
Frantzia		Italy	500 ml	11.99	
Lapas		Greece	500 ml	14.99	USDA and OAI Cert. Organic. There is a "Certified Greek" seal as well.
Lapas		Greece	750 ml	18.99	USDA and OAI Cert. Organic. There is a "Certified Greek" seal as well.
Giardini Del Paradiso		Italy	500 ml	13.99	USDA and Italian Cert Organic

- ◆ Lowest retail price is \$5.99/250 ml
- ◆ Highest retail price is \$19.99/500 ml

Establishing Pricing

- Determine your cost of goods
- Add a profit that covers estimated costs of sales opportunities, other business expenses
- Establish Wholesale & Suggested Retail Prices
 - **Wholesale** is your selling price to **Retailers**
 - **Suggested Retail** is the selling price to **Consumers** – *it is just a suggestion because a retailer can sell at any price, even below cost, if they want to.*

Margin vs. Mark-Up

- **Margin** - is the percentage of the selling price that is profit.
- **Markup** - is the percentage of cost added to cost to arrive at the selling price.
- These are different calculations; a selling price with a margin of 25% results in more profit than a selling price with a markup of 25%.

Margin vs. Mark-Up

- Mark-ups are based on a percentage of cost:

$$= \text{Cost} + (\text{Cost} * \text{Markup Percentage})$$
- The formula to calculate the sales price at a specific Margin based on the cost is:

$$= \text{Cost} / (1 - \text{Margin Percentage})$$
- Alternately, the formula used to calculate the Margin percentage based on the sales price and cost is :

$$= 1 - (\text{Cost} / \text{Selling Price})$$

Retail Pricing Models

Independent specialty stores typically set retail prices at 2 X cost (50% margin/100% mark-up).

Large format specialty stores (Whole Foods) typically set retail prices at 40-45% margin (~70-80% mark-up).

PRICING		
Wholesale	Retail	Retail
	50% margin	40% margin
\$10.00	\$20.00	\$16.67

Pricing Model

Based on pricing below, what would you set as the suggested retail price?

PRICING		
Wholesale	Retail	Retail
	50% margin	40% margin
\$10.00	\$20.00	\$16.67

Your suggested retail price should NEVER be lower than your customer the retailer's price, therefore it needs to be \$20 or higher. If you are selling direct-to-consumers on a website, you should not be undercutting your customer's pricing.

SUCCESS!

You are selling lots of oil in Whole Foods and the buyer (*I mean team leader*) loves your brand! Now they want your oil in every store in the region, however they insist that you must use a distributor in order to continue selling to them.

What does it take to work with a distributor?

Distributor Pricing Model

PRICING			
Wholesale	Distributor	Retail	Retail
	25% disc	50% margin	40% margin
\$10.00	\$7.50	\$20.00	\$16.67

The distributor discount is your cost of distribution (sales opportunity), resulting in \$2.50 less per bottle.

Distributor & Broker Pricing Model

Some distributors work in conjunction with a broker. In this case YOU pay the broker a 5% sales commission, based on the distributor price.

PRICING					
Wholesale	Distributor	Broker	Net Sales	Retail	Retail
	25% disc	5% of dist		50% mrg	40% mrg
\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67

Good News – the price including distributor and broker commission is your **lowest net sales price!**

Bad News – did you consider these costs of sales opportunities when you established your wholesale price?

If you raise your wholesale price to include the costs of using a distributor and broker, the retail price will increase and you will lose the retail account.

Lack of understanding of these food industry pricing practices leads to the most common mistake made by new food producers – pricing your product too low.

Every time you increase your wholesale price you give the retailer the opportunity to review your product’s performance and consider discontinuing your product.

Pricing Model including Cost of Goods

Cost of Goods	PRICING					
	Wholesale	Distributor	Broker	Net Sales	Retail	Retail
		25% disc	5% of dist		50% mrg	40% mrg
\$8.50	\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67
Profit	\$1.50	\$(1.00)		\$(1.38)	\$11.50	

Pricing Model including Cost of Goods

Cost of Goods	PRICING					
	Wholesale	Distributor	Broker	Net Sales	Retail	Retail
		25% disc	5% of dist		50% mrg	40% mrg
\$7.00	\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67
Profit	\$3.00	\$0.50		\$0.13	\$13.00	

↑
 Is your business sustainable at your lowest gross profit?

- As your business grows, a larger percentage of your sales will be at the lowest gross profit, therefore you need to establish wholesale and retail pricing that supports this amount.
- Your sustainable pricing model must take into account both the lowest gross profit AND the price acceptability in your target market.
- Knowing and controlling your cost of goods is the first step in establishing a sustainable business model.

Price Acceptability

In our price survey the lowest retail price was \$5.99 and the highest retail price was \$19.99.

Let's reverse engineer the prices to determine wholesale and distributor pricing.

Retail	Wholesale	Distributor	Broker	Net Sales
40% margin				
\$5.99	\$3.60	\$2.70	\$0.14	\$2.57
\$19.99	\$12.00	\$9.00	\$0.45	\$8.55

Can you make a profit if your net sales price is between \$2.57 and \$8.55?

- ### Conclusions
- Track your cost of goods
 - Never agree to sell at a price below your cost of goods
 - Promotional discounts (such as free fill and TPRs) are investments – will you realize a return on your investment?
 - Do research on a potential customer before making a sales call – find out their range of price acceptability.



Thank You



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