



MARKETING MICHIGAN PRODUCTS

A S T E P - B Y - S T E P G U I D E

Step 3: Prepare Marketing Packet and Bid Documents - Pricing for School Meals Programs

School food service directors spend \$.20-\$.30 per serving for the fruits and/or vegetables in a typical school lunch meal, and only about \$1.00 in total on all the food for each meal. Therefore, prices for your products must be competitive with those of schools' current food vendors, including broadline distributors, who may price products according to wholesale markets. However, school food service directors who are interested in Michigan-grown products generally appreciate fresh, quality products and good service, and most would like to support local farmers and the local economy. Therefore, some directors may be willing to spend a little more for high quality local products and make up the difference with other products which they may be able to purchase elsewhere at lower cost, including USDA commodity foods.

Don't be discouraged if schools only want to start by buying one type of product from you. Schools will often start small with farm to school programs, but they may expand their purchasing if you consistently provide good service and quality products at competitive prices. Consider offering free samples and guaranteeing the quality and freshness of your products with a 100% satisfaction replacement guarantee to build your prospective customers' confidence. Quality service and responsiveness to school customers could also give a boost to your school sales.

Pricing for direct market sales like farm to school can be a daunting task, but it helps to know your costs:

- **Variable costs** include production-related costs like plants, seeds, fertilizer, hourly labor, packaging, etc.
- **Fixed costs** like rent/mortgage, taxes, salaries, and capital costs do not vary by how much volume you produce.

An **optimal gross margin** is one that will cover total costs of production (including variable and fixed costs) and marketing and provide a suitable profit. Gross margin is the difference between the cost of the product and its selling price:

$$\text{Gross Margin \%} = \frac{\text{Selling Price} - \text{Cost}}{\text{Selling Price}} \times 100$$

$$\text{Retail Price (\$)} = \frac{\text{Cost of Goods Sold (\$)}}{100 (\%) - \text{Desired Gross Margin (\%)}} \times 100^{15}$$

If part of your marketing portfolio includes schools, you may have to adjust your prices somewhat to be competitive in this market. However, be sure not to short change your business and offer prices that are so low that they do not account for your costs of production and marketing, including delivery. Product pricing for school customers should fall somewhere between wholesale prices and farmer's market prices. Be aware of and review current market prices if you want to competitively market your products to schools. Check out these resources for product pricing information:

- The USDA Agricultural Marketing Service offers pricing information on The Fruit and Vegetable Market News website at <http://marketnews.usda.gov/portal/fv>. You can search by commodity to see product origins and current prices at terminal markets, including Detroit.
- The Benton Harbor Fruit Market offers a Locally Grown Produce Price Report by subscription only. The price report indicates what buyers are paying growers for fresh, local produce, but it may provide a wider range of pricing than reports from the USDA. Check the Benton Harbor Fruit Market's website at <http://www.bhfm.com/price-report> for more information.
- Rodale Institute regularly updates an online Organic Price Report. Search by product for a side-by-side comparison of organic and conventional prices at national markets. <http://www.rodaleinstitute.org/Organic-Price-Report>
- Contact large produce companies or distributors for price quotes or a price list.
- Ask farmers you know and trust for advice on pricing products and going rates.
- If you do not market at farmer's markets already, check out the going rates for products at local markets to know the upper range for pricing for schools.

¹⁵ Uva, Wen-fei L. *Smart Pricing Strategies*. March 2001. Cornell University. Accessed February 2010 at http://hortmgt.aem.cornell.edu/pdf/smart_marketing/Uva%203-01.pdf.