



# OPERATING A PROFITABLE SMALL FARM

330 MONTEVUE LANE • FREDERICK, MD 21702-8200 • (301) 694-1594 • FAX: (301) 694-1588

FACT SHEET 16

## *Business Items*

Terry E. Poole  
Extension agent, Agricultural Science  
Frederick County, MD

### I. Pricing

Determining what to charge for your product is one of the most difficult and confusing things you will do in your farm business. The price you receive has to cover the cost of producing and marketing the product and return a reasonable profit to you. There are a number of pricing formulas and strategies available if you want to do some research into this subject.

There are several market considerations that you need to look at when you set the prices for your products. *Competition* is certainly at the top of the list. While what the competition charges for the same or similar product should not rule what you charge, unless you can convince customers otherwise, you will have to be competitively priced. *Quality* of product is an important factor in pricing. If you are going to command a premium price for your product, it should have the quality to back up the price. *Specialty products*, or unusual products where there are limited competitors, or the quantity may be limited, can command prices at what the market can bear. Customers will associate price with quality. If your prices are so low that the *perception* of your farm business is one of producing inferior products, your business could suffer. Sales and specials do serve to get customers to shop at your business, but do little to promote product quality. The *location* of your business has much to do with how you price. If you are convenient to most of your customers, you can charge more.

On the other hand, if you are out in the back country, customers will need to be rewarded for coming to you. The *time of the year* for some products is a real factor in pricing. This has to do with the supply and demand factor. For example, the producers who are able to get the first sweet corn to the market are going to command premium prices. These prices will be significantly higher than the prices received later in the season when everybody has it. *Customer acceptance* of your prices is the ultimate test for your pricing scheme. If they complain about your prices or simply do not buy your products, you had better reevaluate your pricing system.

Remember that it is from the sale of your product that you will receive the cash flow to cover your farm business expenses and a profit for your labors. Know what it costs to produce and market your product, so that you *know the product's break-even price*. This makes price determination much easier. If your cost of production exceeds what you can reasonably ask in price for that product, quit producing it unless you feel that you have to have it and can recover the income loss through other products. You are in business to make money.

### II. Rules and Regulations

It is unfortunate that operating a farm business is not always as simple as producing a commodity and selling at the market. There are several assorted items associated with oper-

### *Educating People To Help Themselves*

Local Governments • U.S. Department of Agriculture Cooperating

ating a business that you need to be aware of depending on the production and marketing system you use.

*Zoning and local covenants* that may affect your farm business should be checked out with the county planning and zoning department, as well as what may be required in permits or licenses. There are laws governing weights and measures that you will need to learn as well as having your scales inspected for accuracy by the State Department of Agriculture. The Department of Agriculture can also provide you with information concerning the *labeling laws* that may affect your products. Direct marketers need to be aware of *limitations on putting up signs* to advertise and direct customers to their market. If you hire outside help, you will need to know about any *labor*

*laws* that affect you. If you sell prepared foods, or valued added products, such as jellies or meats, you need to investigate the County and State *Health Department regulations* on these products.

Direct marketers are also going to be expected to *collect sales tax*. The state will be happy to set you up to do this for them. Your insurance company will also want to talk to you about *liability insurance* coverage for your business. If you intend to grow and market organic produce, you will have to obtain certification through the state if you want to market your produce as "Certified Organic." In the near future, the state will have a Certified Organic program for livestock.

Reference: Gibson, E. "Sell What You Sow: A Guide to Successful Produce Marketing."