How To:
Determine the Right Retail Price for Your Product

B.C. Ministry of Agriculture and Food Market Readiness Series

Develop a structured pricing strategy that ensures profitability while remaining competitive in the market. Learn how to assess costs, set sustainable margins, and determine a retail price that aligns with both business goals and consumer expectations.

1. Pricing Strategies

Selecting the right pricing strategy is essential to balance costs with value and remain competitive.

Key Pricing Strategies:

- **Cost-Based Pricing:** Determine the price by adding a profit margin to your total costs. This works well for high-volume products.

- **Break-Even Pricing:** Set the minimum sales quantity needed to cover costs, focusing on volume over margin.

- **Competition-Based Pricing:** Match your prices with competitors to stay competitive in crowded markets. However, ensure this strategy covers your costs.

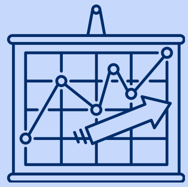
- **Customer-Based Pricing:** Base your price on what your customers are willing to pay, often used for niche or specialty markets.

- **Premium/Luxury Pricing:** Set higher prices to create a perception of quality or exclusivity. This works best for unique products, especially those emphasizing local sourcing, craftsmanship, or organic production.

- **Loss Leader Pricing:** Intentionally set prices below cost for certain products to attract customers, with the expectation of additional purchases. Use this temporarily to increase foot traffic or sales volume.

- **Value-Based Pricing:** Price your products based on perceived value rather than production costs. Higher perceived value—such as organic certification or unique flavors—can justify higher prices.

- **Combining Strategies:** Many businesses mix pricing strategies. For instance, you might use value-based pricing for premium products and competition-based pricing to maintain market share for staple items.



For more information on pricing strategies please refer to *Appendix 1: Pricing Strategies*

2. Knowing Your Costs (Fixed and Variable)

Understanding your costs is critical to setting a price that covers expenses and generates profit.

Fixed Costs: These remain constant regardless of production volume and include:
- Administrative expenses
- Facility rent
- Equipment maintenance

Variable Costs: These fluctuate with production and include:
- Ingredients
- Processing
- Packaging

Accurately track both fixed and variable costs to ensure all expenses are accounted for. This provides a solid foundation to calculate a base price that supports your financial goals.

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3. Hidden Costs

When selling through retail, you may encounter hidden costs that affect profitability. Be sure to include these in your pricing calculations:

Common Hidden Costs

Listing Fees or Slotting Fees: Fees retailers charge to stock new products.

Cash Discounts: Discounts offered to retailers for early payment, e.g., "2/10 net 30," which allows retailers to take 2% off if they pay within 10 days.

Product Liability Insurance: Required by most retailers for food products.

Promotional Allowances: Discounts provided for retailer promotions. These may occur multiple times a year to boost sales.

Tip: *Review all contract terms carefully to identify hidden costs and incorporate them into your pricing.*

4. Pricing for Retail (Margin Percentage)

Retailers calculate profitability using margin percentages. A sustainable retail price should balance retailer margins with a reasonable consumer price.

Margin Percentage
= (Retail Price - Cost) ÷ Retail Price

Retail margins typically range from 35-40% in grocery. Knowing these expectations can help you set a price that supports retailer profitability while remaining competitive.

5. Calculating Your Suggested Retail Price

To calculate the suggested retail price, factor in all layers of costs and margins. Here's an example:

First, you start with your own **Cost of Goods Sold (COGS)**, this is the cost of your goods including raw materials, labour, direct factory overheads, sales commissions, and depreciation. This value should be represented in a per unit basis.

Second, is to find the **Price to Broker**, this is the price that you can expect the broker to pay. For this you will need to incorporate the expected margin you would like to receive for your products.

Third, for the **Price to Distributor**, you will need to include the broker fee. This is because the distributor's price will need to cover the broker fees.

Fourth, is the **Price to Retailers**, this is the price that retailers will face when they try to purchase your goods from distributors. This is the price to distributor with the distributor margin added.

Finally, the **Suggested Retail Price** is the price that consumers will face when purchasing your goods at the retailer. For this, we will need to add the retailer margin to the price to retailers.

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For a detailed breakdown refer to *Appendix 2: Example Calculation.*

Adjust these layers based on your specific costs and desired margins. Consider incorporating broker and distributor fees upfront, even if you're not currently using them, to avoid significant price increases later.

The formula for the Suggested Retail Price (SRP) differs from other pricing calculations in the supply chain because it incorporates the retailer's margin, which is a percentage of the final retail price (not a markup added to a prior cost).

Cost Of Goods Sold
= Beginning Inventory + Purchases - Ending Inventory

Cost of Goods Sold Per Unit
= Cost of Goods Sold / Total Units Produced

Price to Broker
= Cost of Goods Sold x (1 + Your Margin)

Price to Distributor
= Price to Broker x (1 + Broker Fee)

Price to Retailers
= Price to Distributor x (1 + Distributor Margin)

Suggested Retail Price (SRP)
= Price to Retailers / (1 + Retailer Margin)

Margins vs Markups
Margins: The percentage of the final price that is profit for the retailer. For example, if the SRP is $4.55 and the retailer's margin is 35%, the retailer keeps $1.59 as profit.

Markups: Based on a cost-plus approach, where a percentage is added to the cost to determine the next price in the chain.

For earlier steps in the chain (e.g., distributor to retailer), the calculation uses markups, meaning the new price is derived by adding a percentage to the previous price.

Cumulative Nature of Pricing
As the product moves through the supply chain each layer (e.g., broker, distributor) adds a markup, so the calculations use multiplication to build up the price. At the retail stage, the SRP represents the end point where the consumer price reflects all previous costs and margins.

6. Considerations When Setting Price (Selling Retail and Direct-to-Consumer)

If you sell through both retail and direct-to-consumer (DTC) channels, your pricing strategy should avoid undercutting retail partners while maximizing revenue.

Tips for Multi-Channel Pricing
• **Avoid Undercutting Retail Price:** Align your DTC price with retail or adjust packaging sizes to differentiate between channels.

• **Create DTC-Exclusive Bundles:** Offer unique product bundles online to reduce direct price comparison with retail.

These approaches help maintain strong retail relationships while maximizing profitability across channels.

7. Cost Management for Profit

Monitoring and managing costs is essential for long-term profitability. Adjust your pricing when necessary to stay competitive while protecting your margins.

Cost Management Tips:
• **Regularly Review Costs:** Periodically review and adjust fixed and variable costs to identify savings opportunities.

- **Evaluate Supplier Relationships:** Negotiate with suppliers for better rates or discounts on bulk orders.

- **Streamline Operations:** Automate processes where possible to reduce labour and increase efficiency.

Effective cost management ensures your pricing remains sustainable and profitable.

Conclusion

By following this guide, you can develop a pricing strategy that balances costs, customer value, and profitability. Regular cost management and strategic pricing adjustments will help you maintain competitiveness and achieve long-term financial success.

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Appendix 1: Pricing Strategies

Pricing Strategy	Benefits	Disadvantages
Cost-Based Pricing	Simple to calculate by adding a set profit margin to production costs.	Ignores competitor prices and consumer perception, potentially making it less competitive.
	Ensures costs are covered, helping achieve financial sustainability.	Doesn't account for market demand, which may lead to lower sales volume if price is perceived as high.
Break-Even Pricing	Useful for volume-focused sales, allowing producers to cover all costs with a basic margin.	Often doesn't support long-term profitability due to minimal profit margin.
	Provides a clear understanding of minimum sales needed to avoid losses.	Can lead to price wars with competitors also using similar strategies.
Competition-Based Pricing	Helps stay competitive in crowded markets by matching or slightly undercutting rivals.	May ignore production costs, potentially reducing profitability if prices are too low.
	Allows easy comparison with competitors to identify optimal pricing adjustments.	Risk of lower brand perception if prices are set below market expectations for quality products.
Customer-Based Pricing	Focuses on customer perception, allowing prices to align with willingness to pay.	Requires in-depth market research to determine customer price sensitivity, adding complexity.
	Can capture a higher price for niche or specialty products with perceived value.	May be difficult to sustain if competitors lower their prices significantly.
Premium/Luxury Pricing	Builds brand image as a high-quality, exclusive product, attracting a premium customer base.	Narrows customer base, potentially limiting sales to high-income segments.
	Can create perceived value, increasing customer loyalty and willingness to pay.	Requires strong branding and quality to support higher price points.
Loss Leader Pricing	Increases brand awareness by attracting customers to try products at a lower price.	Not sustainable for long-term profitability; can lead to losses if used excessively.
	Can lead to repeat purchases if customers buy additional items or at regular prices later.	May lead to customer expectation of discounts, reducing perceived product value.
Value-Based Pricing	Allows for flexible pricing based on perceived customer value and unique product benefits.	Difficult to quantify the exact perceived value for each customer segment, requiring market research.
	Supports premium pricing for products with clear differentiators (e.g., organic certification).	High perceived value products may face competition if similar alternatives are available at lower prices.

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Appendix 2: Example Calculation

Manufacturing

Cost of Goods Sold =Beginning Inventory + Purchases - Ending Inventory	*Beginning Inventory* *Purchases* *Ending Inventory* **COGS**	= $15,000 = $5,000 = $8,000 = $15,000+$5,000-$8,000 = **$12,000**
Cost of Goods Sold Per Unit = COGS/ Total Units Produced	*Total Units Produced* **COGS Per Unit**	= 6,000 = $12,000 / 6,000 **= $2.00**

Broker

Price to Broker =Cost of Goods Sold Per Unit x (1+Your Margin)	*Your Margin* **Price to Broker**	= 17.5% = $2 x (1+17.5%) **= $2.35**

Distributor

Price to Distributor =Price to Broker x (1+Broker Fee)	*Broker Fee* **Price to Distributor**	= 3% = $2.35 x (1+3%) **= $2.42**

Retailer

Price to Retailer =Price to Distributor x (1+Distributor Margin)	*Distributor Margin* **Price to Retailer**	= 28% = $2.42 x (1+28%) = **$3.10**

Consumer

Suggested Retail Price =Price to Retailer / (1+Retailer Margin)	*Retailer Margin* **Suggested Retail Price**	= 35% = $3.10 x (1+35%) **= $4.19**