

Merchandising and Pricing Strategies

Merchandising refers to the set of strategies that direct marketers use to make sales. It includes:

- Product selection
- Processing and packaging
- Pricing
- Display
- Inventory control
- Advertising
- Customer service

In summary, merchandising is the art of selling.

Merchandising Plan

Your overall merchandising goal is to sell your products as profitably as possible and to build satisfaction and repeat sales. To achieve this goal, you should develop a comprehensive merchandising plan. Success in merchandising requires providing what the customer wants, where and when she wants it. Direct marketing customers want a combination of excellent quality and good value and expect some choice of products and package sizes. For these reasons, proper product selection and handling must be part of a successful merchandising plan.

Because customers are attracted by a diversity of offerings, effective merchandising actually begins with your farm production decisions. Your farm stand or farmers market booth becomes increasingly attractive to customers as it offers a greater range of the products that they want.

Display and Packaging

Well-designed stand layouts and well-organized displays make a difference to customers. In a farmers market, customers will inevitably compare your layout to your competitors. This doesn't mean that you have to be as elaborate as some, but having competing booths just steps away should provide motivation for raising your game at least a bit. Attractively displaying and packaging products can increase sales with relatively little extra effort or cost. Displaying items in bulk gives customers the impression of good selection and abundant supply. Wooden baskets and woven containers give that country-fresh look.

Clearly mark prices on all items. Many customers are reluctant to ask a price and may decide to just walk away if prices are not marked. Many customers will not buy unfamiliar items, so you will have to make a special effort to tempt

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The Farm-direct Marketing Set

A farm-direct marketing business provides both attractive opportunities and unique challenges to farm families. The farm-direct marketing series of Extension publications offers information about establishing and developing a range of farm-direct enterprises.

Other publications in the series are:

- An Overview and Introduction (PNW 201)
- Costs and Enterprise Selection (PNW 202)
- Location and Facilities for On-farm Sales (PNW 204)
- Personnel Management (PNW 205)
- Financial Management (PNW 206)
- Legal Guide to Farm-direct Marketing (PNW 680)
- Food Safety and Product Quality (PNW 687)

To learn more, consider one of the online courses offered by Oregon State University, Washington State University, and University of Idaho:

In Oregon—Growing Farms: Successful Whole Farm Management <https://pace.oregonstate.edu/catalog/growing-farms-successful-whole-farm-management>

In Washington—Cultivating Success™ Sustainable Small Farms Education Program: <http://cultivatingsuccess.wsu.edu>

In Idaho—Cultivating Success™ Sustainable Small Farms Education Program: www.cultivatingsuccess.org

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them into trying something new and different. Consider providing recipe cards or information sheets for these out-of-the ordinary items.

You can sell the same basic product at a range of prices by separating items according to quality (such as color, size, shape, blemishes, and minor cuts or bruises) and displaying each subgroup separately. This gives customers more options and may increase sales if price is a limiting factor for some people.

Customer Service

Do not underestimate the value that customer service adds to your business. Poor service will destroy a business as quickly as poor products. People return to shop where they feel appreciated and where the salespeople put the customer ahead of everything else. Less important tasks in the stand, such as visiting with other salespeople, talking on the phone, and straightening the displays, all rank second to providing good customer service.

The best salespeople learn customer names and recognize which of them welcome purchasing suggestions. Occasionally reward regular customers with an extra apple, peach, or vegetable. A “baker’s dozen” every once in a while is always a good sales technique and a nice way of saying thanks for continued patronage.

Pricing Strategies and Techniques

One advantage of farm-direct marketing is that you set your own prices rather than being forced to accept the price offered to you. This does not mean, however, that you can price your products at a level that ensures you will earn your desired profit. Your buyers and your competitors will influence the price point that you choose. It is important to recognize both the time and effort required to figure out the right prices and the potential problems that result from doing a poor job of price-setting.

Knowing your costs is a good starting point for pricing, since this indicates what prices will cover your costs and make a profit. But basing prices on costs is only one possibility and may result in prices that are either much too high or much too low. Following are three different pricing options with examples showing when each is most relevant. These are competition-based pricing, cost-based pricing, and customer-based pricing, known as the “three Cs.” They are presented here in the order of use.

While it is helpful to consider all three options, most producers usually choose one dominant pricing approach.

Competition-based pricing

Most customers recognize that they have many options for buying a product. They use price as an important factor in making their decision, but price is certainly not the only consideration. For this reason, you will also need to pay attention to exactly what your competition is offering. This means that if you are selling apples in a farmers market, you need to know not only the prices that others are asking for their apples but also how those competing products (which can also include pears) compare to what you have. If you are selling heritage varieties or have organic certification, for example, your prices may be attractive to customers even if they are higher. In

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summary, while competition-based pricing means understanding how your prices compare to the prices offered by competitors, it does not necessarily mean pricing the same or slightly below them.

Most farmers market vendors use some variation of competition-based pricing because customers can so easily compare prices. Farm stands and U-pick operations have a bit more of a captive audience, so customers who shop there have fewer opportunities for direct comparisons. Still, many of these farms choose to price at levels that are similar to their perceived competitors. In contrast, agritourism products tend to be quite different from one another, so they are less often priced based on what competitors are offering.

In order to use this pricing method, you will need to collect price information for competing products. This takes some effort, but it is in many ways less work than the other two pricing methods.

Cost-based pricing

The basic data required to implement cost-based pricing are outlined in *Farm-direct Marketing: Costs and Enterprise Selection* (PNW 202). All producers should know their costs and use this information as they consider how to price. It is a worthwhile investment of time to evaluate your costs, since in the long run the prices you receive must exceed your per-unit costs to ensure the viability of your farm.

While it is very important in all cases to know your costs, only producers with certain products and customer relationships can and should price directly from these costs. Cost-based pricing works best when you and your customers have a stable, long-term relationship such as with Community Supported Agriculture (CSA) members or chefs at white tablecloth restaurants. These customers want YOUR product and are willing to pay what it takes to meet your needs. In a sense, CSA customers agree to an overall price for the basket of goods without knowing the exact quantity (and quality) they will receive. Some chefs value your specific radishes or lamb to such an extent that if your costs of production go up they are willing to pay the price and will not search for alternative, less expensive suppliers.

However, this is not always or even usually the situation. In many—perhaps most—instances, your customers don't really care about your costs and won't be willing to pay twice the market rate just because your lower yields mean that your per-unit costs of production are higher. Most producers will lose sales if their prices don't stay in a relatively fixed relationship with prices from alternative suppliers.

Customer-based pricing

This pricing approach requires you to go beyond comparing your products to those offered by competitors by investigating more precisely how specific customers value what you have to sell. Because this approach requires consumer research, it is often the most challenging of the three pricing strategies. But, using this strategy allows you to develop and sell niche products at prices that customers are willing to pay. Your research can be either relatively simple and inexpensive or sophisticated and costly.

For example, a poultry producer could ask this set of questions: Are farmers-market customers interested in purchasing pastured poultry? How much higher than supermarket prices are they willing to pay? Are they most interested in whole birds or

pieces? Would customers be willing to pay more for chicken certified as meeting the national organic standards?

Remember that while you are investigating what customers want and are willing to pay, you still need to pay attention to your production costs (to see if this will be profitable) and how you stack up to your competition.

Some pricing tips

Marketers who sell large volumes of produce for home canning and freezing may, at the peak of the season, change their pricing strategy to encourage customers to buy in larger units, such as flats of berries, boxes of tree fruits, and 20- and 25-lb units of vegetables. Examples of differential pricing with berries would be \$3.00 for a pint, \$8.50 for three pints, or \$30 for a twelve-pint flat. U-pick, on the other hand, might be \$2.00 a pint. An example for sweet corn is \$0.50 for an ear or \$2.00 for five ears.

In addition to pricing strategies, certain pricing techniques have proven successful. Supermarkets use the rule of 9s (such as, \$0.19, \$0.29, \$0.59, or \$0.79 per unit). This seems cheaper to many customers than pricing in even numbers. At farmers markets and farm stands, 5s are just as effective and save pennies (for example, \$0.05, \$0.15, \$0.25, \$0.35, or \$0.75 per unit). This technique permits specials to stand out. For example, by shifting the special items from prices ending in 5 to prices ending in 9, it is easy to show savings for buying in volume: for example, at \$0.39 each, a three-for-\$1 price saves the customer \$0.17.

Promotional Techniques

Having the best products, superior service, and the most attractive prices is not enough if customers don't know about it. Your promotional strategies will differ depending on whether you are selling in a farmers market (in which case the market generally plays the most significant role in attracting customers) or from a farm stand, U-pick, or CSA. Whether it is you or the market organization that handles promotion, potential customers need to know what is available and when and where they can make their purchases.

Promotion is a cost of doing business and a legitimate business expense. One of the challenges that direct marketers face with respect to promotion is how to figure out the relative effectiveness of different promotional techniques. This section discusses the techniques that are available, the cost of using them, the results you can expect from each, and when and how to employ them.

The most common promotion techniques used by Pacific Northwest farm-direct marketers are:

- Word of mouth
- Social media and web sites
- Signs
- Newspapers and radio
- Local buyer guides and maps
- Email, text messages, and direct mail
- Point-of-sale material
- Fairs, exhibits, display windows, and bulletin boards

Word of mouth

Compared to other advertising and promotional techniques, word of mouth is the least expensive but also the most difficult to control. It cannot be purchased outright, as can others, but instead has to be earned from satisfied customers. They will “sing the seller’s praise” while dissatisfied customers will “shout the seller’s doom.”

Many direct marketing operations initially have only a few customers and seek to attract more as the selling season progresses. Therefore, it pays to cultivate the friendship and satisfaction of these first, potential word-of-mouth advertisers. You can best do this by applying a lot of tact, offering courteous service, high-quality produce, and reasonable prices. Give these few early customers something to talk about and “brag on,” and they will sing your praises and encourage their friends.

Social media and web sites

Either you, your farmers market, or your local marketing group will probably want to have a social media and/or web presence. When customers are trying to find out the hours for a farm stand or U-pick, they are most likely to use some means of accessing the web. Know that the demographics of your customer base will influence the types of electronic communication preferred. Latino customers, for example, may have cell phones but limited computer internet access. When the season’s first strawberries are available, Facebook, Instagram or Pinterest are excellent ways to get the word out.

While designing web sites or mastering the use of social media may be a joy for some, these tasks are a source of terror for many others. This is why depending on the farmers market to handle social media and web is an excellent option for vendors who primarily sell through the market.

If you wish to promote your own farm stand and don’t want to do it yourself, you can hire someone to do the job. Since out-of-date and poorly prepared materials will hurt your business, be prepared to spend some time in finding the right person for the job. This market is quite competitive so you should be able to hire someone competent for a reasonable price.

Signs

Signs are often an excellent, low-cost advertising buy. For farm stands or U-pick, make sure to respect national, state, county, and local regulations. Before you put up a sign, whether on a building, a piece of property, along a highway, at an intersection, or on a county road, ask the city or county clerk about what, if any, regulations apply.

For a farm stand, your signs will be the first notice passers-by have that your direct marketing location is just ahead. The sign must attract attention, identify the seller, and announce what is for sale. The effectiveness of a sign depends upon its appearance, content, visibility, and location. In a farmers market, signs are a key element in getting shoppers to at least consider making a purchase.

Signs should be easy to read and depict a farm-fresh image. Avoid blackboards and messages scrawled in crayon on cardboard; they are difficult to read and give the impression of a second-rate, unprofessional market. The exception might be inside a roadside or farm stand, to announce a special or marked-down price. Novelty attracts attention. Listing a variety of products will attract more customers than a sign that merely reads “fruits and vegetables.” Do include a distinctive name or trademark on your signs.

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The distance at which potential customers can see and read signs depends very much on the colors and sizes of the letters. Legible color combinations for roadside signs include bottle green on white, scarlet red on white, black on white, and navy blue on white. Colors should also contrast pleasingly with the background against which the sign will be viewed, and should distinguish it from other distractions. Signs, if properly made and displayed, can be one of your most effective techniques.

Newspapers and radio

Although newspaper circulations have decreased, they still offer varied promotional opportunities, such as news stories, display ads, and classified ads. Each of these is somewhat different from the others, but each can help you inform new as well as existing customers about who you are, your location, the items you have for sale now or in the near future, and your business hours. Most of all, stories and ads can tell customers that you value their patronage. If you sell in a farmers market, sometimes it is the market rather than the individual business that bears the responsibility of working with the newspaper.

News stories with pictures are the most difficult to get published. Usually, no money is exchanged, but it may require some effort on your part to seek writers and editors who are interested in doing a story about some aspect of your business. It is your responsibility to entice the reporter into writing a story about a particular aspect of your direct marketing business. Creating interesting activities related to your business may be the key to soliciting interest from news writers. The effort will be well worth the time, since news articles can be the most effective means of attracting customers.

Some businesses find that newspaper advertising is effective if used continually throughout the season. Use display ads regularly to announce new items, or an oversupply of one commodity, or perhaps a short supply of a substitute item. Use a logo, trademark, or identifying typeface in the display ad so customers will recognize and be conditioned to look for your ad regularly.

Many radio stations have quite targeted audiences, so they can direct your advertising dollars toward specific groups of customers. Once again, you might need professional assistance to develop high-quality ads.

Buyer's guide and maps

A buyer's guide, directory, or map assembles in one place all the information a customer needs to start buying. The various guides in the Northwest contain the same basic types of information: the name and address of each direct marketer in the area covered, the location and directions for getting to the markets, a listing of commodities handled, the season of availability, the methods of sale, and the hours of operation.

A guide also may include a stylized pictorial map; a county roadmap; or a sketch of the highways, roads, and streets on which the various farm operations are located. Some guides provide a product index (a list of all growers who produce and direct-market a certain product).

Putting together a buyer's guide requires cooperative action, either by a self-organized group of growers or through a formal group such as a tourist promotion or economic development organization.

Email, text messages, and direct mail

Direct mail has declined in popularity, but it has not yet completely disappeared. You can collect names and addresses in a number of ways. Maintaining a guest register or asking customers to fill out a card are the most common and perhaps the easiest.

Mailing cards, flyers, or letters to a long list of people is time consuming and expensive. So, if you want to use a mailing list, make sure it's up-to-date.

Email and cell phone text messages have replaced many communications previously done through the regular mail.

Point-of-sale materials

Point-of-sale promotional material and business cards are another technique. Many customers appreciate and save recipes and other suggestions for using seasonal produce. This can be valuable when you introduce products your customers don't know, and it can increase sales.

Fairs, exhibits, and display booths

Fairs, exhibits, and display booths are another way of putting your product before the public. A direct marketer can gain a tremendous amount of community goodwill through these means. You may also have an opportunity to collect names and addresses for your mailing list.

Depending on the time of year and seasonality of the produce, participating in exhibits, fairs, and display booths often works best as a group action with other growers, rather than as an individual one. It might be a good idea for growers to keep their places of business open during the exhibit, fair, or booth display. Many regular customers probably will attend the fair, and new customers may follow up with a visit to your place of business.

A well-rounded set of promotional efforts, a strong customer-oriented attitude, and the right products at the right prices are the groundwork for a successful, farm-direct marketing business.

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