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**Improved Meat Marketing for Small Scale and Direct Marketing Farms in the Northeast:
PART IV: Pricing for Profit**

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Factors for Pricing

How do you set prices for the meat you sell? Common answers are to look at pricing at grocery stores and farmers' markets. I have heard from farmers that feel the need to price below observed market prices while others insist on pricing above the market. Agricultural economists advocate for careful record-keeping which accounts for the cost of production and values farm labor; however, for most small farms, cost tracking seems impractical and onerous. In particular, pricing individual meat cuts from a carcass can be confusing since each cut comes in proportion on the carcass and has a level of demand in the market.

Four factors that influence and inform your farm's prices for meat cuts are: 1) the farm's profit goal per head, 2) the costs of production and processing, 3) the yield of and market demand for each cut in the carcass, 4) the amount of labor needed to sell in the channel. These factors can confuse the pricing process and necessitate devising channel-specific pricing.

Think of your farm as multiple businesses, which, realistically, it is. The businesses can be split into two large entities, production and marketing. The production business produces slaughter-ready animals while the marketing business buys them, pays for processing, and spends time selling the meat. As you choose to move an animal along the chain from production to marketing you add cost and increase risk. Consider the financial loss of a calf dying versus losing meat from one head due to a freezer breakdown. Logically, in order to justify retaining animals through the chain of increasing costs and risk, the farm must BEAT competing marketing prices at every step. The market can buy feeders and finished animals or supply them if needed. Farms selling meat need to account costs and ensure that the prices they receive in their channels are worth the effort.

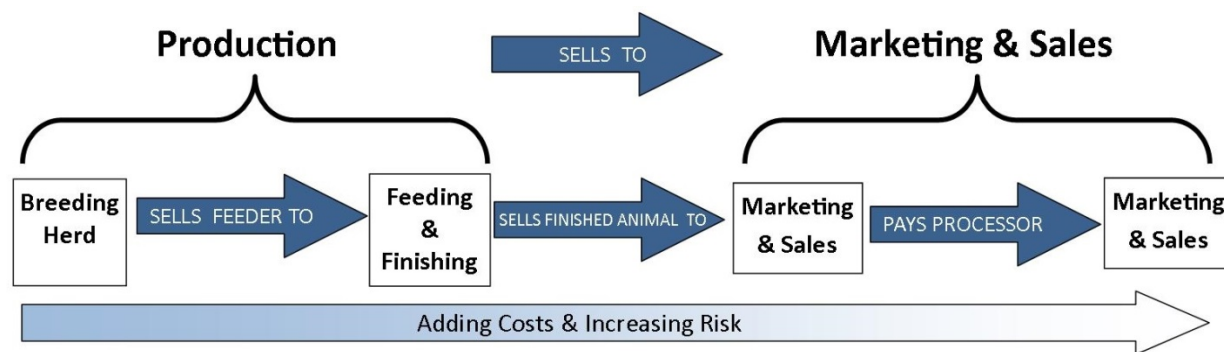


Figure 1: As a farm retains an animal and adds value, it also adds costs and increases the risk if there is a loss.

Cornell Meat Price and Yield Calculator

Cornell Cooperative Extension of Tompkins County has developed an online tool, the Cornell Meat Price and Yield Calculator. The Price Calculator tool simplifies pricing for meat sold by the cut or carcass and helps users ensure that they cover all entered costs and build in a profit. The Price Calculator can be found online at calculator.meatsuite.com. The tool is free and easy to use. In order to get reliable, meaningful results farmers should first collect their own data including:

1. Hot carcass weight (HCW, also called hot hanging weight) of one representative animal from your farm or the average from a group of animals.
2. The weights of every cut you receive back from the butcher. This includes any cut you sell, such as bones, organs, and the traditional cuts.
3. The invoice from your processor.
4. A list of your current pricing for that channel. If developing pricing for the first time, you can skip this part.

Using the Price Calculator is easy. You first enter the species, channel you are pricing for, and whether you are pricing for cuts or the carcass. Carcass pricing applies to whole, half, and quarter carcasses. See our previous article to learn about the importance of setting prices for each marketing channel you use. Next you enter your total cost of production (COP) for one typical animal on your farm. Entering an accurate COP is challenging. It is best to have your own records, but you can find resources online to help, or try calling your local Extension agent for help. Failing any better resource, you can use USDA-reported market prices as a rough guide for cost of production; however this is the least reliable method. A realistic COP is vital for meaningful results when setting prices. Enter an artificial COP which is too low and you will end up with low meat prices and a false sense of profit. As the old adage goes, “garbage in, garbage out.”

As you progress through the Price Calculator website you will add additional costs for trucking, processing, and marketing. To the COP and marketing costs you will be able to add a desired profit, either per head or as a percentage of total costs. The COP profit is so that the production side of your farm operates at better than break-even. The marketing profit is to add a profit margin above all marketing and processing costs, again, to avoid operating at a break-even.

Next, you will enter each cut's name and weight from one carcass or the group average. On the last page, a traffic light with red for "stop" and green for "go" indicates if you have covered all costs and reached your profit goals with your pricing. While the light is red, you are short of your goal. You can adjust the pricing of each cut until the light turns green.

Pricing is a tool which can be used to help manage the rate at which cuts sell. To a point, pricing can be used to manage the rate of individual cut sales to more closely match the proportions in which they come on a carcass. In other words, pricing can be used to slow down sales of high-demand, low-yield cuts, such as ribeye steaks and tenderloins on beef. Likewise, pricing can help speed up the sale of relatively low-demand, high-yield cuts such as those from the chuck and round. The Price Calculator makes this easier by indicating "stop" or "go" as you experiment with pricing. Once the traffic light has turned green, you can continue to adjust prices of cuts in order to aid inventory management. As long as the light stays green, you continue to meet or exceed profit goals.

So, what does it mean if you use the Price Calculator and you determine that your customers "would never pay these prices?" If you have entered accurate costs, then it means that you may be in the wrong marketing channel. In this way, the Price Calculator is useful not only for setting prices, but also to test the viability and profitability of marketing channels.

The Cornell Price Calculator was designed to simplify cost accounting, value the farmer's time, and make pricing for each channel easier, all while ensuring the desired profit per head. The Price Calculator is also useful for calculating the carcass-to-retail yield for your animals and balancing consumer demand for each cut. Finally, the Price Calculator can be used to "test" marketing channels and even as a means to explain pricing to your customers.

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"Smart Marketing" is a marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews elements critical to successful marketing in the food and agricultural industry. *Please cite or acknowledge when using this material.* Past articles are available at <http://dyson.cornell.edu/outreach/smart-marketing-newsletter>.