

Note: Brian Henehan, Senior Extension Associate in the (now) Dyson School of Applied Economics and Management at Cornell University, is retiring this summer. We recognize his many services to stakeholders in New York and his expertise in cooperatives management. Below is one of his first contributions to the Smart Marketing newsletter series that stands the test of time and is well worth re-publishing.



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What Is Your Agricultural Commodity Really Worth?

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How many times have you, as a producer, walked into a supermarket and been struck by how much higher the retail price of your product is than the price you are receiving. You already knew you were not being paid what your product was worth. And now you wonder who is making all the money. In fact, you probably even considered marketing your own products so you could keep some of that “profit” being made by others.

The belief that one can do something better or cheaper than everyone else is what adds zest to markets. However, there are several potential pitfalls to be avoided. The most common are estimating the value consumers attach to a product, and estimating the costs of marketing.

Consumers Determine a Product’s Value

Marketing is finding a consumer need and satisfying it. Good marketing usually means providing unique goods and services for which consumers are willing to pay a premium.

So it is consumers who determine that value of your products, and not the costs of production. Moreover, it is also consumers who determine if you are offering a truly unique and worthwhile product. If not, you should not expect to receive more for your product than anyone else.

In today’s markets consumers are usually more interested in the services incorporated into products than the products themselves. Farmers have control over some of those services (quality, variety, chemical residues, appearance, etc.). But most value-added services are

provided by food manufacturers and other participants in the market process. Therefore, to capture more of the marketing margin, one must focus on providing the value-added services often provided by off-farm entities.

Estimating the Costs of Marketing

When we work with individuals interested in marketing their own products, we often find a tendency to overestimate future returns. Why? It is easy to concentrate on those high retail prices and lose sight of the number and costs of the marketing services required. These include: processing, packaging, storage, distribution and advertising. Put differently, there is a tendency to overestimate the profits being made by others.

Let's look at an example. Suppose you are producing a seasonal commodity for which you receive \$1.00/lb at the plant, and its processed product is selling for \$3.00/lb in the supermarket. How much would you make if you marketed the product yourself?

It is best to assume you will not receive any higher retail price than similar established products. In addition, assume that by talking with people in the industry you obtain the following cost information:

Retail Price:		\$3.00 /lb
Costs:		
Retail Mark-up	\$.60 /lb	
Distribution	.10	
Transportation Cost	.15	
Processing & Packaging	.80	
Storage	.20	
Interest on Inventories	.10	
Shrinkage	<u>.02</u>	
Total		<u>\$2.00 /lb</u>
Product Price:		\$1.00 /lb

In this case, the price you receive from marketing your own product is about the same as you are receiving from the processor. In practice it could be higher or lower.

We tried to emphasize several points: marketing involves legitimate costs. The costs are the result of services for which consumers are willing to pay. Most buyers of agricultural commodities are probably paying about what your products are "worth", as determined by what consumers are willing to pay. Chances are there is little excess money to be made by doing your own marketing, unless you have something unique to offer. If you really have something truly unique, analyze the market carefully before proceeding. The rewards could outweigh the risks. And that is what marketing is all about.

"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://marketingpwt.aem.cornell.edu/publications.html>.