

# Tools for Selling to Restaurants, Retailers and Institutions

## Pricing and Invoicing

Selling directly to restaurants, retailers and institutions can be a great way to expand your business and develop a reliable customer base. This tip sheet is part of a series (all available at [www.buylocalfood.com](http://www.buylocalfood.com)) designed to help farmers respond to the unique challenges in reaching out to and maintaining relationships with direct wholesale purchasers.



### Pricing:

Pricing a product, especially for a new market, can be a real challenge. Your goal should be to strike the balance between pricing competitively enough that you can attract customers and build sales and pricing high enough to protect and build the financial health of your business. Many farmers underprice their products or use out of date information to guide their pricing structure. Here are some steps you can take to ensure that your wholesale pricing is on point.

### Calculate Costs

1. Calculate your fixed costs, which are costs incurred regardless of sales. Fixed costs include mortgage payments, insurance, and loan payments.
2. Identify your variable costs, which are the costs that fluctuate in relation to sales volume. Variable costs include raw materials, labor and delivery costs. Track your expenditures and calculate your per-unit variable costs.

### Conduct Market Research

1. Consider the features (such as varieties, flavors, colors, etc), the marketing strategy, the perceived quality, distribution coverage, and the price of comparable products on the market.
2. Ascertain where your product fits in relation to other products on the market. Are you offering a high-priced product that can be distributed selectively and marketed to niche markets? Or are you offering a lower-priced product that must be distributed to a broad-based, price-sensitive market?
3. Conduct a “SWOT” analysis of each product. List the Strengths and Weaknesses of your product, as well as the Opportunities and Threats you see in the wider market.

### Work Through Pricing Scenarios

1. Here is an example: the variable costs of your product are \$5.50, your monthly fixed costs are \$2,000, and the price for comparable products is \$8. The next step is to calculate how many units you would have to sell at various prices in order to break even. First, calculate your contribution margin, which is the amount of money left over after you subtract your variable costs from the price of your product. So, if your product is priced at \$8, and your variable costs are \$5.50, your contribution margin is \$2.50/unit. Next, divide your fixed costs by the contribution margin to determine the number of units you would have to sell at that price to break even. So, because \$2,000 (your fixed costs) divided by \$2.50 (your contribution margin) is 800, you need to sell 800 units to break even.
2. Next, using your break-even numbers, calculate how many units you would have to sell in order to meet the profit goal you set for your business. For the purposes of this example, your profit goal is \$1,000, which you divide by your contribution margin of \$2.50 to equal 400. Therefore, you must sell 800 units to break even and 400 additional units to meet your profit goal, a total of 1200 units. When pricing a particular product, run through these calculations for a few different potential prices to see how the projected volume varies.





## Analyzing your Results

Once you've identified your break-even points, profit goals, and quantities, it's time to think about those numbers in the context of your business. Can you produce that projected volume? Do you think your customers would accept a higher price? When thinking about applying the pricing structure you've developed, consider these pricing tips.

1. Don't assume that if you are introducing a new product to the market, your price has to be the lowest.
2. Don't try to compete on price with the biggest competitors. Focus on offering a higher-quality product or something unique.
3. Don't base your price on the baseline manufacturing cost. Consider what your product is worth to consumers.
4. Don't cut it too close. Include in the price an allowance for future expenditures and the unknown.
5. Consider how customer demand for a product will vary at different prices. Don't assume that you can sell at a very high volume and slim profit margin.
6. Intuition and gut feelings cannot replace product and cost knowledge.

## Invoicing:

The invoice that you use represents your business, so it needs to look professional and provide your customers with all the information they need to pay you and maintain their own books. A good invoice includes:

1. Complete contact information: your name, address, phone, fax number, and email address.
2. A detailed list of the products in the order.
3. Quantities of each item.
4. The price per item.
5. Date invoice was prepared.
6. Additional charges, such as delivery fees.
7. Payment terms.

Keep a copy of the invoice in a folder until it's paid. Invoices with complete information not only look professional to your customers but are also an important record-keeping tool for you.



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