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Marketing Modules Series

Marketing Module 6: Price Example

Pricing of Apples



Produce Business, August 2009 issue
<http://www.producebusiness.com/e-books/PB09AUG.pdf>



Produce Business, August 2009 issue
<http://www.producebusiness.com/e-books/PB09AUG.pdf>

“The prices farmers get for their apples and their share of revenues along the supply chain vary according to the channel selected, the distance to market, the package type and the associated marketing activities”

Based on real market data, this example illustrates the price and revenues obtained by apple growers selling their product through 6 different channels

Source: Case Studies on Local Food Supply Chains - Apple Case Studies in the Syracuse, New York MSA.

Miguel I. Gómez, Edward W. McLaughlin, Kristen S. Park

Available at: http://foodindustrycenter.umn.edu/Local_Food_Case_Studies.html

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Complete Marketing Modules Series available at: <http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html>

Channel 1 - Farmer selling at Farmers Market

Direct Marketing



Wellsphere – State Farmers Markets
<http://stanford.wellsphere.com/wellpage/state-farmers-market>

For apples sold in tote bags of 2, 4, or 8 quarts:

- Average retail price in 2009: \$0.50/lb
- Farm Gate Price: \$0.26/lb (52% of retail price)
- Transportation and associated marketing costs: \$0.10/lb. (20% of retail price)

Share of Channel Revenues:

$\$0.50/\text{lb} - \$0.10/\text{lb} = \$0.40/\text{lb}$ (80% of retail price)

Farmer's Marketing Margin: $\$0.50 - \$0.26 = \$0.24$ (48% of retail price)

Channel 2: In-State Farmer selling to Packer-Shipper



New York State Apple Country
<http://www.nyapplecountry.com/harvest.htm>



<http://www.getwraps.com/produce-patch-new-design.gif>



Photos from The Oregonian , OregonLive.com
http://photos.oregonlive.com/oregonian/2009/09/oregon_farmers_hope_for_strong_1.html

- Average supermarket price for apples sold in bulk in 2009: \$1.41/lb
- Farm gate price: \$0.26/lb
- Transportation costs to Packer-Shipper shed: \$0.03/lb. (2% of retail price)
- Value added for activities beyond the farm: \$1.12/lb (79% of the avg. retail price) – covers costs and profits of packer-shipper, wholesaler and retailer

Farmer's Share of Channel Revenues: \$0.26/lb (18% of retail price)

Channel 3a: In-State Farmer selling to Retail Store Through Distribution Center in Bulk



The Lens Flare.com Artist and Photographer Community
http://www.thelensflare.com/gallery/p_supermarketdisplay_32098.php

For in-state apples sold in bulk:

- Average retail price in supermarket, 2008-2009: \$1.50/lb
- Unit retail margin: \$0.76/lb (51% of retail price)
- Farm Gate Price: \$0.26/lb (17% of the retail price)
- Transportation costs: \$0.03/lb (2% of retail price)

Farmer's Share of Channel Revenues:

$\$1.50/\text{lb} - \$0.76/\text{lb} = \$0.74/\text{lb}$ (49% of retail price)

Farmer's Marketing Margin is $\$0.74 - \$0.26 = \$0.48/\text{lb}$ (32% of retail price)

Channel 3b:

In-State Farmer selling Bagged Apples to Retail Store through Distribution Center



Produce Business, September 2008 issue p. 66
<http://www.producebusiness.com/e-books/PB08SEP.pdf>

For bags 2lbs, 4lbs and 6 lbs:

- Average retail price in supermarket, 2008-2009: \$1.00/lb
- Unit retail margin: \$0.37/lb (37% of retail price)
- Farm Gate Price: \$0.26/lb (26% of retail price)
- Transportation costs: \$0.03/lb (3% of retail price)

Farmer's Share of Channel Revenues:

$\$1.00/\text{lb} - \$0.37/\text{lb} = \$0.63/\text{lb}$ (63% of retail price)?

Farmer's Marketing Margin is $\$0.63 - \$0.26 = \$0.37/\text{lb}$ (37% retail price)

Channel 4: Out-of-State Farmer selling Bulk to Retail Store Through Distribution Center



WWW.NYAPPLECOUNTRY.COM

For out-of-state apples sold in bulk:

- Average retail price in supermarket, 2008-2009: \$1.89/lb
- Unit retail margin: \$1.00/lb (53% of retail price)
- Farm Gate Price: \$0.26/lb (14% of retail price)
- Transportation costs: \$0.23/lb (12% of retail price)

Farmer's Share of Channel Revenues:

$\$1.89/\text{lb} - \$1.00/\text{lb} = \$0.89/\text{lb}$ (47% of the retail price)

Farmer's Marketing Margin is $\$0.89/\text{lb} - \$0.26/\text{lb} = \$0.63/\text{lb}$ (33% of retail price)

Channel 5: Local Farmer Delivering Bagged Apples Directly to Retail Stores



Produce Business, September 2008 issue p. 68
<http://www.producebusiness.com/e-books/PB09AUG.pdf>

For apples sold in half-peck (4.5 lbs) totes:

- Average retail price in supermarket, 2008-2009: \$0.99/lb
- Unit retail margin: \$0.31/lb (31% of retail price)
- Farm Gate Price: \$0.26/lb
- Price of apples delivered at the store: \$0.68/lb (including transportation costs)

Farmer's Share of Channel Revenues:

$\$0.99/\text{lb} - \$0.31/\text{lb} = \$0.68/\text{lb}$ (69% of the retail price)

Farmer's Marketing Margin is $\$0.68 - \$0.26 = \$0.42/\text{lb}$ (42% of retail price)

Channel 6: In-State Farmer Selling to School Districts through a Wholesaler



Smarter Lunchrooms.org
<http://www.smarterlunchrooms.org/casestudy.html>

For US# 1 medium-sized apples sold in 1 bushel bags:

- Average retail price in school cafeterias, 2009: \$0.90/lb
- Unit retail margin: \$0.48/lb (53% of retail price)
- Average price paid to wholesaler: \$0.42/lb
- Wholesaler's Marketing Margin: \$0.10/lb (11% of retail price)
- Farm Gate Price paid to growers: \$0.26/lb (29% of retail price)
- Transportation costs: \$0.06/lb

Farmer's Share of Channel Revenues:

$\$0.26/\text{lb} + \$0.06/\text{lb} = \$0.32/\text{lb}$ (36% of retail price)

Farmer's Marketing Margin: $\$0.32/\text{lb} - \$0.26/\text{lb} = \$0.06/\text{lb}$ (7% of retail price)

Wholesaler's Share of Channel Revenues:

$\$0.90/\text{lb} - \$0.48/\text{lb} = \$0.42/\text{lb}$ (47% of retail price)

Farmer's Share of Revenues & Marketing Margin by Marketing Channel Type

Marketing Channels	Retail Price	Share of Revenues	Marketing Margin
Channel 1: Farmer to Consumer Farmer's Market	\$0.50/lb	\$0.40/lb <i>80% retail price</i>	\$0.24/lb <i>48% retail price</i>
Channel 2: In-State Farmer to Packer/Shipper	\$1.41/lb	\$0.26/lb <i>18% retail price</i>	<i>n/a</i>
Channel 3a: In-State Farmer to EDLP Retail Store (Bulk apples)	\$1.50/lb	\$0.74/lb <i>49% retail price</i>	\$0.48/lb <i>32% retail price</i>
Channel 3b: In-State Farmer to EDLP Retail Store (Bagged apples)	\$1.00/lb	\$0.63/lb <i>63% retail price</i>	\$0.37/lb <i>37% retail price</i>
Channel 4: Out-of-State Farmer to EDLP Retail Store (Bulk apples)	\$1.89/lb	\$0.89/lb <i>47% retail price</i>	\$0.63/lb <i>33% retail price</i>
Channel 5: Local Farmer to EDLP Retail Store (Bagged apples)	\$0.99/lb	\$0.68/lb <i>69% retail price</i>	\$0.42/lb <i>42% retail price</i>
Channel 6: In-State Farmer to School District through Wholesaler	\$0.90/lb	\$0.32/lb <i>36% retail price</i>	\$0.06/lb <i>7% retail price</i>

Activities Performed vs. Share of Revenues by Marketing Channel Type

Activities Performed	Channel 1	Channel 2	Channel 3a	Channel 3b	Channel 4	Channel 5	Channel 6
Harvesting	✓	✓	✓	✓	✓	✓	✓
Conditioning*		✓	✓	✓	✓	✓	✓
Grading			✓	✓	✓	✓	✓
Packing	✓						
Bagging	✓			✓		✓	
Shipping	✓	✓	✓	✓	✓	✓	✓
Advertising & Promotion	✓						
Share of Channel Revenues (% Retail Price)	80%	18%	49%	63%	47%	69%	36%

*Conditioning: washing, waxing etc.