FREEDMEN HEIRS FOUNDATION
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UTIA INSTITUTE OF AGRICULTURE
THE UNIVERSITY OF TENNESSEE

Market-First Planning
A Producer's Guide to Operational Profitability

PRODUCERS ON THE RISE WEBINAR SERIES

Freedmen Heirs Foundation supports small and mid-sized producers by expanding their market access, providing technical assistance, and strengthening their financial resilience to enhance their operations. Through this series, our goal is to offer practical tools producers can apply immediately and share with their community.

Overview

By examining consumer preferences, current food trends, and competitor strategies, producers can uncover the narrative behind their pricing strategy. Using economic principles, they can accurately calculate costs and margins to set a profitable price point. Additionally, employing break-even analysis helps determine the exact sales volume needed to move from just covering costs to making a profit. This guide outlines key points and tips to implement during your market planning.

1. Start with a Market-First mindset.

Before you begin planting or breeding, make sure to identify:

- Why buyers want your product
- What attributes make it defensibly different
- How much buyers are willing to pay
- Buyer's packaging and delivery standards
- Your volume and what market channels align with your product offerings (e.g., farmers markets, CSAs, restaurants, retail, direct-to-consumer)

Use demand and buyer insights to monitor trends and forecast demand while emphasizing product attributes. Track:

- Compliments
- Competitor Prices
- Tastes
- Preferences
- Substitutes
- Buyer Trends
- Market Share

Prices convey value by allocating resources through signals and creating incentives. Trusted relationships, state branding, and sustainable production methods can support premium pricing.

2. Build your cost-and-margin foundation.

Separate fixed and variable costs to identify the margin necessary for covering fixed expenses and achieving a profit. For instance, consider the markups commonly found in grocery stores:

15-20 %	For value-added shelf stable products
30-40 %	For fresh produce
40-55 %	For baked goods

3. Apply the selling-price formula.

Let's implement the selling-price formula with Farmer Dan who has ventured into selling pints of cherry tomatoes. He must use the following formula to determine his selling price:

$$\frac{\text{Variable costs per unit}}{(100\ \% - \text{Desired gross margin})} = \text{Selling price per unit}$$

(Example continued on back)

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For example: If Dan's variable cost per unit is $2.25, then the calculation would be:

$$\frac{\$2.25}{(100\,\% - 40\,\%)} = \$3.75 \text{ per unit}$$

4. Use break-even analysis to set your sales target.

At the break-even point, total revenue equals total cost:

$$\#\text{ of units} \times \text{price per unit} = (\#\text{ of units} \times \text{variable cost per unit}) + \text{fixed cost}$$

For example, with a selling price of $3.75, a variable cost of $2.25 per unit, and fixed costs totaling $5,000, Dan's breakeven production is calculated as:

$$\frac{\text{Fixed costs}}{(\text{Selling price per unit} - \text{Variable cost per unit})} = \#\text{ of units}$$

$$\frac{\$5{,}000}{(\$3.75 - \$2.25)} = 3{,}333 \text{ units}$$

Dan's sales would be calculated by using:

$$\#\text{ of units} \times \text{Selling price per unit} = \text{Sales}$$

$$3{,}333 \times \$3.75 = \$12{,}498.75$$

Dan's sales would be approximately $12,498.75

Note: Each additional unit sold beyond 3,333 units contributes $1.50 towards Dan's farm profit.

! Don't forget these overlooked inputs when determining break-even costs.

The following costs should be included in your fixed costs:

- ✓ Rent or land payments
- ✓ Property taxes
- ✓ Administrative costs (certifications, licenses, insurance, or permits)
- ✓ Equipment depreciation
- ✓ Professional fees (accounting and attorney fees)

(Please note this list is not all inclusive)

Quick Action Steps for Next Season

1. List your top 3 target products for the upcoming season.
2. Identify and contact 2–3 potential buyers or market channels for each product.
3. Calculate unit costs using the checklist above.
4. Establish your selling price before committing seed, feed, or land.

Have Questions? Contact us today by sending an email to info@freedmenheirs.org.

This guide was created in collaboration with Dr. Kimberly Morgan, Ph.D., Associate Professor and Greever Chair of Agribusiness Development at the University of Tennessee Institute of Agriculture and Freedmen Heirs Foundation.