

## Pricing Considerations for Retail Agriculture—Coyote Run Farm Egg production case study

By Matt Russell

In May of 2014, our farm made the decision to raise our egg prices from \$4 to \$5 a dozen, a 25% increase. We came to this decision after doing a close look at our production costs and sales. We had always set our price at the top of the market in Greater Des Moines but had never actually done a good budget of our costs. We wrongly assumed that we were making enough money on the eggs. As we started to question this assumption, we also came across a blog post by Chris Homan of Nami Moon Farms in Wisconsin <http://www.namimoonfarms.com/news/genuine-quandry/>. He provides many good insights. The one that hit us personally was his insight when established farms sell at too low of a price. When that happens, they make it difficult for new farmers to enter farming. As we built out a more accurate budget, we realized we fit that description: an established farm, with an established market, selling at too low of a price. When we realized how little we were making on our eggs, we decided we needed to raise our price. Our desire to help create some space for beginning farmers was the straw that broke the camel's back. Eggs are a leader for us. People order eggs and then order other foods. We weren't losing money on our eggs, but we weren't making much either. We were also selling out every week. When we looked at our budget, we realized we were working way too hard for a net of \$1533 a year or \$.385 per dozen.

Here's a look at our enterprise budget for eggs for 2013. There are a lot of assumptions in these numbers and we've tried to explain many of them.

### 2013 Coyote Run Farm egg enterprise budget

At \$71,230 gross farm income--eggs represent 22% of farm revenue.

Total sales: 4075 dozen \$16,300 sales

We tried to include all of our expenses, but also took a conservative rather than aggressive approach to arriving at a total cost to assign to egg production. Thus, our expenses often include a percentage of the line item's total expenditure. This is the cost we've assigned to the eggs. For example, while eggs represent 22% of our gross sales, it didn't make sense to apply 22% of our farm interest payments. It made more sense to us to assign 11% instead. Eggs take up a huge amount of our labor, but only a small amount of our 110 acre land base.

Total feed, oyster shell, wood chips	\$9,578
Total new cartons-3057 (1/4 recycled rather than new)	\$611
11% farm interest payments	\$1,076
Gasoline used (200 gallons gas @ 3.30 per gallon)	\$677
• Expensing mileage wasn't used because all of the trips essentially include other enterprises as well and \$1100 seemed too aggressive. We also took just a portion of the gallons used as well since almost every trip included transportation for other farm enterprises as well.	
10% of truck insurance	\$44
Supplies: water pans, lights, feeders, water hoses, etc.	\$200
Chicks--165	\$418
2 buildings depreciated over 10 years	\$400
Refrigerator depreciated over 10 years	\$69
Six nest boxes depreciated over 10 years	\$108

Fencing depreciated over 5 years	\$192
4 transport coolers depreciated over 5 years	\$40
Water bill 60 gallons per day at .007 cents a gallon	\$153
<ul style="list-style-type: none"> <li>includes estimate for washing eggs, pans, and watering chickens</li> </ul>	
5% of electric	\$93
5% of property tax	\$99
5% of legal fees	\$51
10% farm liability includes Farmers Market insurance	\$331
10% workman's comp	\$50
Casual labor 30 hours	\$300
<ul style="list-style-type: none"> <li>Neighbor kids provide occasional cleaning, feed unloading, and fence moving services</li> </ul>	
18% Farmers Market fees	\$196
<ul style="list-style-type: none"> <li>egg sales were 18% of farmers market sales</li> </ul>	
10% Internet related expenses	\$81
<ul style="list-style-type: none"> <li>We use our website and email to communicate with egg customers</li> </ul>	
<b>Total expenses</b>	<b>\$14,767</b>
<b>Net Farm Income from egg sales</b>	<b>\$1533</b>

We estimate our egg enterprise requires an average of 3 hours per day all year long. This includes selling at the farmers market, delivering to our customer pick up point, cleaning, feeding, washing eggs, gathering, unloading feeding, etc. That's a total of 1095 hours or \$1.44 per hour.

Had our price been \$5 a dozen against these costs our net would have been \$5608 and our hourly return would have been \$5.13. That's a much better return and while it is not lucrative, it does provide a better entry point for a beginning farmer or for an existing farmer to add eggs as an enterprise.

In the end, we decided to raise our price and accepted the possibility that we'd have trouble selling the eggs for \$5 a dozen. If that was the case, then we decided we needed to end our egg laying enterprise on the farm. What happened was that since raising our price, we have sold nearly every carton of eggs and the standard price for eggs at the Des Moines Downtown Farmers Market has increased to \$5 a dozen.

### **Lessons Learned**

Farmers need to know their cost of production. Farmers need to price appropriately. Food and agriculture professionals need to help farmers support their prices and raise them when those prices are not high enough to provide sufficient net income. If we want retail agriculture to continue to expand, established farms need to price high enough to allow for new farmers to enter the marketplace. Consumers, at least in the Greater Des Moines market, are willing to pay the true cost (plus a profit) for high quality foods.

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