

PRICING EXERCISE – CSA PART 1

Locally Fresh, CSA

Sarah Jones operates a CSA in northern Iowa with 100 shareholders. The following table is a listing of the crops produced and local market prices. She is asking what the share box price should be based on local prices.

Crop	Per share amounts		Price/unit	Share value
Broccoli	7.5	lb	\$ 2.00	
Carrots	15	lb	1.00	
Corn	7	dz	5.00	
Garlic	4	lb	5.00	
Lettuce, cabbage, other greens	40	hd	1.50	
Onions	8	lb	1.00	
Peas	5	lb	3.00	
Peppers	8	lb	1.50	
Potatoes	30	lb	0.70	
Summer and winter squash	30	lb	1.50	
Tomatoes	36	lb	1.50	
Total Share Value				

Discussion Questions:

Based on prices in the table, what would the value of a share box be? \$ _____

What prices should be used to determine CSA share values?

What information is missing from this approach? How would you add that information?

PRICING EXERCISE – PART 2
Locally Fresh, CSA

Sarah Jones operates a CSA in northern Iowa with 100 shareholders. The following table is a listing of the budgeted expenses expected to be incurred this coming growing season. Her goal is to receive \$15,000 in net income per year. She is asking what her CSA share price should be in order to reach the \$15,000 goal.

Direct cash operating expenses Seeds, fertilizers, pesticides, paid labor, supplies, utilities, fuel, repairs, trucking, miscellaneous. These expenses cover both production and marketing activities.	\$ 14,000
Indirect cash operating expenses Office, legal, accounting, insurance, property taxes or land rent	<u>3,000</u>
Total cash expenses	\$ 17,000
Non-cash expenses (depreciation)	<u>3,000</u>
Total expenses	\$ 20,000

Discussion Questions:

What was the share valuation based on total costs and income goal?

What would happen if the share value determined by market price were \$300 in this case? What would you suggest Sarah do?

PRODUCT MIX EXERCISE

Happy Acres Farm

Joe Farmer operates a vegetable farm in northern Iowa. He wants to become more profitable given the amount of labor he currently spends and the machinery he already owns (he doesn't want to go into debt). The crops currently grown and considered to be his signature crops are listed in the top half of the table below and other crops that could be grown are listed in the bottom half of the table. He has asked you to help determine if changes should be made in what is produced. You have developed the table below.

Comparison of Annual Economic Returns and Labor for Various Enterprises¹

Vegetables	Returns over Total Costs per Bed	Hours of Labor per Bed²	Returns over Total Costs per Hour
Carrots	54.02	5.35	10.10
Heirloom Tomatoes	547.21	11.20	48.86
Snow Peas	58.45	7.65	7.64
Sweet Potatoes	27.48	4.30	6.39
Alternative Crops			
Greens	102.90	2.80	36.75
Potatoes	61.65	5.10	12.09
Red Raspberries	131.50	6.15	21.38
Sweet Potatoes	27.48	4.30	6.39

¹ Source: Chase (2006), "Iowa Vegetable Production Budgets", Iowa State University, Iowa State University Extension, (PM 2017).

² Hours of labor for red raspberries are average hours from establishment through the life of the production period.

Do you suggest any changes in what is currently grown? If so, what are those changes and why should Joe integrate them?

MARKETING OUTLET EXERCISE

Happy Acres Farm

Joe Farmer markets his products through two different marketing outlets; a farmers' market and a local nursing home. He already calculated his production break-even at \$0.40 per lb. The table below is his transaction costs for the two markets over a similar 20-week period. Because tomatoes are considered one of his more important crops he has assigned 20 percent of his total transaction costs to them.

Farmers market: 20 weeks/40 markets

Transportation vehicle expenses @ \$.25/mi, 3,200 miles	\$ 800
Labor charges; 2 people @ 12hr/wk, 20wks, @\$10/hr	\$4,800
Supplies (bags or sacks, other supplies) @ \$20/wk	\$ 400
Total transaction costs for the season	\$6,000
Total transaction costs allocated to tomatoes (percent of total sales) – 20%	\$1,200
Total transaction costs/lb sold (750 lbs sold)	\$1.60

Institutional market: 20 weeks

Transportation vehicle expenses @ \$.25/mi, 1,600 miles	\$ 400
Labor charges; 1 person @ 4hr/wk (includes selling), 20wks, @\$10/hr	\$ 800
Supplies (containers, other supplies) @ \$30/wk	\$ 600
Total transaction costs for the season	\$1,800
Total transaction costs allocated to tomatoes (percent of total sales) – 20%	\$ 360
Total transaction costs/lb sold (900 lbs sold)	\$.40

What sales prices would be needed for each market in order to cover all costs and provide \$1,000 of profit margin?

What profit margin would be available if the common farmers' market price was \$3.50 per lb. and the institutional price was \$2.30 per lb.?

Which market or markets make sense to pursue? What criteria would you use to choose? What other considerations should be made?