THE carrot PROJECT

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How to Set the Best Prices For Your Product Using a Competitive Analysis

Dear Making It Happen Participants,

Happy Spring! We have another informative learning tip to help you ensure that you are pricing your products correctly by using a competitive analysis. Why would you want to do a competitive analysis now? As you launch into peak growing (and selling) season, it's important to make sure you are pricing your products correctly. A competitive analysis will help you understand how your products compare to those of other farmers, and help you set your price.

There are two elements to determining price: an internal analysis of costs and an external analysis of the competitive landscape. First, you need to understand the cost to produce whatever it is you are selling and the price you need to charge in order to be profitable. For example, after analyzing your cost of production, you may realize that you need to charge $3.50, let's say, for a pound of tomatoes in order to be profitable.

That's all well and good, but how can you be sure that this is best price you can get for your product? This brings in the second element: knowing what the competition charges. For example, after reviewing the competition, you may see that others are charging $5 per pound for a comparable tomato. This suggests that you have room to raise your price and still be competitive on price.

Competitive analysis helps you to figure out whether your price is appropriate, based on product features and on the markets around you. In order to understand the competition's pricing, you'll need to consider all the features and benefits of your product. Here are the steps to a competitive analysis:

STEP 1: List all features of your product; then, create a table identifying which competitors have each of those features
STEP 2: Assign a price value to each feature
STEP 3: Add or subtract these values from each competitor's base price in order to compare their prices accurately to your own price
STEP 4: Determine what to do with your price, based on this analysis of the competition

STEP 1: List all features of your product; then, create a table identifying which competitors have each of those features

Mary raises chickens at Parsonfield Farm. As Mary considers her pricing compared to the competition's, she realizes that every seller offers different features, based on how the birds are raised and sold. To analyze her competition, she puts all of the competing sellers into a table and records which feature(s) each seller offers:

	Parsonfield Farm	Windblown Farm	Meat Market	Full Moon Farm	Stillwater Farm	Stop and Shop
Organic			√	√	√	
Free-Range	√	√	√		√	√
Pastured	√		√	√		
Direct from Farmer	√	√		√	√	
Butchered	√	√	√	√		√

STEP 2: Assign a price value to each feature

Now we can see how Parsonfield chicken stacks up against the competition in terms of who offers which features, but how does this inform price? In order to decide on the value of each feature, Mary did a little research. She went to the grocery store and noted how chicken was priced. With the wide variety of organic, free-range, and conventional chicken on sale, she had a good gauge. She also used pricing information gleaned during negotiations with a meat market. She decided on the following prices* for each feature:

- **organic** allows a farmer to charge $2 more per pound
- **free-range** is worth an extra $1.50 per pound
- **pastured** chicken could command $1 more per pound
- chicken **bought directly from the farmer** merits a $2 per pound price reduction
- **butchered** chicken (cut up into pieces) is worth an extra $3 per pound

*These values are for instructional purposes only and are not based on fact or real markets.

STEP 3: Add or subtract these values from each competitor's base price to compare their prices accurately to your own price

Because we want to compare everyone's prices to Mary's, we want all differentials to be adjusted to be comparable with Parsonfield Farm chicken. Therefore, competitors' prices will be added to and subtracted from, based on how their products compare with Parsonfield's. Parsonfield's base price will stay the same.

For example, if Mary's chicken does not have a feature, she will subtract the designated value of that feature from the prices of the farms that do have the feature:

- because Parsonfield chicken is not organic, in order to make an equivalent comparison, Mary must discount (or lower) by $2 per pound the price of the chicken from farms that are organic

Alternatively, if Parsonfield chicken has a particular feature, Mary will add the designated value of that feature to the prices for the farms whose chicken does not have that feature. For example:

- she will add $1.50 and $1, respectively, to the prices for farms whose chickens are not free range and not pastured, as hers are
- the farms selling through distributors will have $2 added to their prices
- because Stillwater Farm sells only whole birds, Mary will add $3 per pound to their price for not butchering their chicken, as she does

This information can all be logged onto the table Mary previously made by replacing each differing feature with price values. Mary will then sum the columns to calculate the adjusted price:

	Parsonfield Farm	Windblown Farm	Meat Market	Full Moon Farm	Stillwater Farm	Stop and Shop
Organic	X	X	√	√	√	X
Free-Range	√	√	√	X	√	√
Pastured	√	X	√	√	X	X
Direct from Farmer	√	√	X	√	√	X
Butchered	√	√	√	√	X	√

	Parsonfield Farm	Windblown Farm	Meat Market	Full Moon Farm	Stillwater Farm	Stop and Shop
Base Price (per pound)	$5.00	$4.00	$6.50	$5.75	$4.00	$2.99
Organic	X		**-$2.00**	**-$2.00**	**-$2.00**	
Free-Range	√			**+$1.50**		
Pastured	√	**+$1.00**			**+$1.00**	**+$1.00**
Direct from Farmer	√		**+$2.00**			**+$2.00**
Butchered	√				**+$3.00**	
Adjusted Price	**$5.00**	**$5.00**	**$6.50**	**$5.25**	**$6.00**	**$5.99**

STEP 4: Determine what to do with your price, based on this analysis of the competition

These price adjustments - based on the competition's features - indicated that Mary was charging at the lowest end of the pricing spectrum, even though, before the analysis, she may have thought her prices were in the middle range. Having done this analysis, Mary felt comfortable raising her price. However, she recognized that she'd need to explain her price increase to her customers by communicating the value and features they get from her products, as compared with those of other farmers or suppliers.

Try this with your own business!

We encourage you to do such an analysis with your own numbers and competitors' data; just follow the steps and use the tables to determine if your prices are set correctly! If you have any questions about this analysis, please email Evie Toland.