Determining Prices for CSA Share Boxes

Ag Decision Maker

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Pricing products that do not have an established market can be difficult. This is true for producers selling an assortment of products individually or collectively such as in a Community Supported Agriculture (CSA) share box.

CSA farmers in the Midwest were surveyed in 2002 regarding their farming operations. Respondents indicated they set share prices more on what they perceive to be their members' willingness to pay rather than market price or their production costs plus a retail markup (Tegtmeier and Duffy, 2005). Farmers indicated their cost of production did affect prices, but costs may or may not have included unpaid labor provided by themselves or family members. Fifty seven percent of respondents perceived their current share price did not offer them a fair wage. A conclusion of the study was share prices should increase to offer CSA farmers a higher return for their labor.

These results were similar to a set of surveys conducted in the northeast U.S. (Lass, Rattan, and Sanneh, 2001). When operator and family labor were included in the determination of profitability, returns were consistently negative. Again, increases in share prices would need to be instituted to offer a sustainable income. CSA producers therefore need to determine how best to match share prices to a profitability goal in order to sustain their farming operation.

Pricing

There are three primary ways to price a product; customer based, competition based, and cost based (Chase, 2006). Customer based pricing is focused on how the customer values the product. As indicated by the previous surveys, CSA farmers have emphasized this approach with limited success.

Pricing based on customers' willingness to pay is common outside of agriculture (Kotler, 2000). The difference between these companies' approach and what may be occurring with CSAs, is the former companies utilize advertising and sales departments to build up the perceived value to the customer. Their approach to building up the perceived value is to start with a base value and then add price premiums. The base value often is a competitor's price. In the case of CSA farm operations, the competitor's price would be the market that the customer would purchase from if the CSA was not available. In many cases, the base competition would be a local grocery store.

A SARE-funded study conducted in 2006 had 4 Iowa CSA farming operations list all products included in a share box and price those products or similar products at the local grocery store. The listing of products and price for the products was conducted weekly throughout the 20 week CSA season. The product offerings and associated prices differed by CSA operation and location. However a base of products and prices could be developed from the data which will serve as an example (Table 1).

The example share box includes 24 fruits and vegetables and the amount of each product delivered to the customer. The amount of the product is the total amount delivered over a number of weeks. The grocery price is an average price not including sales prices, special promotions, or weekly variations. The share value grocery price is the extension of the amount delivered multiplied by the average grocery price. As indicated by Table 1, the total share value based on grocery store prices over the 20-week season for 2006 was $352.68.

A comparison to organic prices was conducted by one of the CSA farmers. Not all of the 24 products included in the share box had organic prices. Regular grocery store prices were used when organic prices were unavailable. The extended share value

Table 1. Example CSA Share Box Valuation.*

Product	Amount	Unit	Grocery Price	Share Value Grocery	Organic Price	Organic versus Grocery	Share Value Organic
asparagus	3.5	lb	$2.99	$10.47	$6.25	209.0%	$21.88
basil	6	oz	2.49	14.94			14.94
beans	10	lb	1.39	13.90	2.79	200.7%	27.90
beets	5	lb	1.79	8.95			8.95
broccoli	7	hd	1.79	12.53	3.29	183.8%	23.03
cabbage	5	lb	0.79	3.95	0.99	125.3%	4.95
carrots	5	lb	0.89	4.45	1.19	133.7%	5.95
cucumbers	16	fruit	0.69	11.04			11.04
eggplant	8	fruit	1.69	13.52			13.52
garlic	4	lb	2.29	9.16	5.99	261.6%	23.96
greens	15	lb	1.49	22.35	6.66	447.0%	99.90
kohlrabi	3	lb	2.99	8.97			8.97
melons	7	lb	0.49	3.43			3.43
onions	6	lb	1.29	7.74	2.05	158.9%	12.30
peas	4	lb	3.99	15.96	4.79	120.1%	19.16
peppers	35	fruit	0.59	20.65			20.65
potatoes	28	lb	0.99	27.72	1.69	170.7%	47.32
radishes	5	bunch	0.89	4.45			4.45
rhubarb	2	lb	2.99	5.98			5.98
squash	18	lb	1.19	21.42	1.95	163.9%	35.10
strawberries	4	qt	2.99	11.96	4.95	165.6%	19.80
sweet corn	2	dozen	3.99	7.98			7.98
sweet potatoes	10	lb	0.99	9.90			9.90
tomatoes	34	lb	2.39	81.26	3.29	137.7%	111.86
				$352.68		**190.6%**	**$562.92**

*The share value grocery is equal to the amount included in the share boxes multiplied by the grocery price. The grocery price is the average price of the product over the delivery period for the product excluding sales prices, special promotions, and weekly variations. Organic prices were not available for all products. For those products not available, the grocery price was assumed. Given the estimates for deliveries and prices, the example share box contents would cost the consumer approximately $350 for the season at non-organic prices and $560 with a mixture of organic and non-organic prices.

based on organic prices was $562.92 (Table 1). For those products that had an organic and non-organic price, the organic price was approximately twice the non-organic price. If an organic CSA farmer had to sell at a mixture of organic and non-organic prices as illustrated in the example, the share box value would be approximately 60 percent higher than the all non-organic price of $352.68.

The approximate $350 (or $560) price for the 20-week share box membership would be considered the base price. At this point premiums for quality, delivery, production system, innovation, customer training, service, and price need to be determined (Kotler, 2000). How much more would a customer be willing to pay for freshness, taste, and quality of product; home delivery or convenient drop-off; organic or low pesticide production practices; connection to agriculture; recipes or cooking tips; twenty weeks of reliable service with guaranteed delivery of products; and a guaranteed price for the entire season? CSA farms need to calculate the premiums for each of the listed attributes to determine a customer-based price.

Conclusions

Determination of the customers' perceived value (or willingness to pay) is an important component in developing a pricing strategy for the products delivered whether it is included in a CSA share box or individually. Willingness to pay can be accomplished by surveying customers directly or determining a base price and adding premiums to that base price. By developing a base price from a grocery store or other common source, the competition for the CSA is included in the analysis. The premiums on top of the base then are used to differentiate the CSA product from the more common grocery store product. The level of premiums will determine the final share box price and profitability for the CSA farming operation.

Although customer based pricing is important, it also is important that the final price exceeds the cost of production and marketing and includes a fair wage to the farm operator and his/her family. If pricing is below the cost to produce and market the product, the farming operation will not be sustainable without a continual flow of dollars from an outside source.

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