Price Maker or Price Taker? How to Differentiate your Products

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Many agricultural producers are very interested in various production issues such as, disease and high yield varieties, fertilizer application, stocking rates, disease and pest control, and cover crops. Producers are less likely to be discussing issues such as their return on investment or how effective they have been at differentiating demand for their products. If agriculture is seen as business, then rates of return and demand are important.

Commodity Markets
Making a profit starts with a consumer and how much they are willing to pay. Many agricultural products are sold as commodities. This means that the product is the same regardless of who produces it. For example, a grade A head of cabbage sold by farmer Kimo Smith is the same as a grade A head of cabbage sold by farmer Pua Jones. When this occurs, each farmer receives whatever a wholesaler will pay and becomes what economists call a price taker. Farmers feel as if they have no control over prices and use a strategy that is based on reducing costs and maximizing the number of grade A cabbages they produce.

As each farmer follows this strategy the entire group of farmers may produce more cabbage. The farmer does not make any revenue, however, until the cabbages are sold. If the increase in number of cabbages for sale is greater than the increase in the number of cabbages consumers will buy, the market price of cabbage will go down. This may reduce total revenue for farmers and may drive the high cost producers out of business. Thus, farmers who are price takers can feel like victims in a marketplace because the more they produce, the lower the price they receive.

Price Makers
The notion that to increase the quantity sold, farmers have to lower price is a basic economic law that generally holds true. It causes farmers who sell in commodity markets to be faced with fierce competition. In order to escape this situation, many farmers try to convince consumers that their products are different.
from those of other farmers. In other words, they try to differentiate their products. For example, direct marketing at a farmer’s market may provide an opportunity for you to convince consumers that their head cabbage is fresher or tastier than what is found at other markets. Decisions to sell at a farmers’ market will be based on how many will sell at what price and the additional selling costs. Farmers that are successful at differentiating their products are called price makers. Price makers will not maximize production because as they produce more they will see that they have to reduce the price to sell the additional products. Thus, they strive to balance increasing production with decreasing prices in order maximize profits.

In this issue consumer preferences for avocado varieties are discussed. Consumer may report that Sharwil avocados taste better and this is likely to mean that they will pay more for them. However, a consumer cannot decide on taste until after the purchase. If you want to differentiate your product from others, you might offer a free sample to encourage sales.

Your promotional materials must clearly focus on why your product differs from those the consumer can buy elsewhere. Promotional materials also should clearly indicate where the consumer can go to buy from you. A sale will not be made if the consumer cannot find your product.

Be aware of how much a consumer is willing to buy for your product. It may taste better, but if the consumer is not willing to pay more, then the better taste does not produce any profits.

The value of a product’s characteristics to a consumer is difficult to determine. Market researchers spend much time on these types of questions. In order to be profitable a marketing strategy that ties together the four marketing P’s of price, place, promotion and product is needed. This marketing strategy must also be tied with your production strategy or you may not show up in the market with a product that will sell.

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