

CHAPTER TEN

True Costs & Fair Pricing

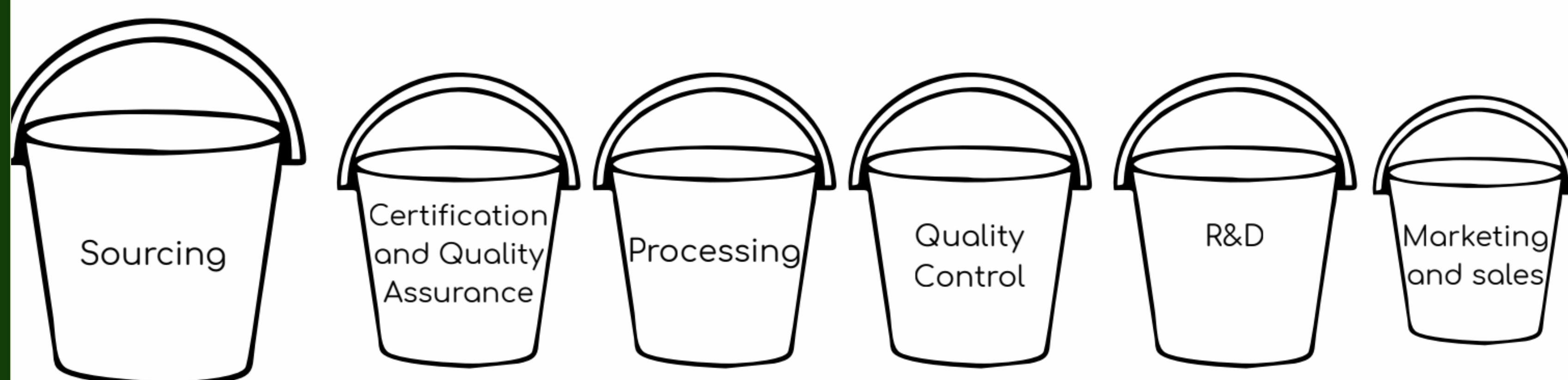
This guide helps processors name the costs of moving herbs from communities to market. The goal is to make pricing transparent and fair so producers can stay in business, harvesters are paid on time, and buyers understand what it takes to support the whole system.

"If the price is lower than this, you need to ask what corners were cut."

SHI MEMBER



Our Costs in Buckets



Seeing Double: The Hidden Costs in Herb Supply Chains
In a Monthly Meeting Oct 2025 SHI members shared insights into the buckets of costs their company has and the risks associated with those costs.

What Success Looks Like

- Buyers know the steps and costs behind each kilo and look at the sources for raw material from a more holistic perspective.
- Floor prices are defined and respected. No one is asked to sell below viability.
- Risk is shared through advance payments, testing cost-sharing, and longer-term commitments.
- Collectors and farmers see consistent, timely pay.
- Less "race to the bottom" pricing, more stability across the system.
- Producers and processors reinvest in soil health and land management, equipment, training, and communities instead of cutting corners.

What Counts as a True Cost?

Producers and processors remind us that costs include investing in soil health, drying and redrying, sacks and pallets, transport from remote forests, fuel and electricity, testing, permits, certifications, and often small but steady requests from communities like a fence, a meeting hall, a new sack of seed. These relationship costs stabilize supply but are invisible in market spreadsheets.

When we reduce costs to a single number, much is lost: the hours building trust with collectors, the risks carried when buyers delay payment for 90 days, the investment in processing equipment that buyers expect but rarely help fund.

Finding the Floor Price

To stay viable, processors calculate a floor price:

- All costs (labor, drying, transport, testing, certification, overhead)
- Plus a margin to reinvest in equipment and people
- Plus a buffer for cash-flow gaps and currency swings

Anything less means someone — processor, farmer, or harvester — is being squeezed. One SHI member put it plainly: "If the price is lower than this, you need to ask what corners were cut."

How We Can Share the Story With Our Buyers?

Numbers help, but stories make the reality tangible. As an idea, SHI Primary Processing WG members created one-page "cost logic" sheets that included:

- A simple map of steps from field to drying to testing to export.
- A pie chart of cost percentages.
- Clear risks (rainy-season humidity, pesticide drift) and how they are managed.

Others bring buyers to the farm or film short videos. Seeing the drying sheds, or the weight of a fresh bag carried from the forest, shifts the conversation.

Botanical Cost of Quality: An Economic Framework for Botanical Price Floors and Adulteration Prevention is a review paper now under peer review by Blake Ebersole and Trish Flaster. Follow that initiative [here](#).

Learning From Each Other

In our SHI Primary Processor working group, processors are learning from each other. We are discussing how to reduce costs without pushing risk downstream. Some examples include:

- Drying and sorting closer to the harvest site lowers transport weight and prevents rework.
- Training collectors on quality reduces dirt and foreign material, saving on cleaning and lab rejections.
- Aligning processing to end use prevents unnecessary steps — not over-cutting tea herbs destined for tincture, for example.
- Sharing lab tests across buyers or co-funding micro tests lightens the burden.

If you don't know your costs, you can't know if the price you're offered is fair. Many processors end up selling at a loss without realizing it, because prices are set by "the market" and not by the work it takes to get herbs ready for sale. Cost analysis is a way to make those hidden costs visible — to yourself, and to your buyers.

Step 1: Map the Work You Do

Start by listing out every step that happens before an herb leaves your facility. Think of it as a chain of activities:

- Harvesting and collecting
- Preparing the soil, planting, weeding, harvesting
- Pre-cleaning and washing
- Drying (sun, shade, or mechanical)
- Sorting and cutting

- Transport and storage
- Microbe reduction / Sterilization (if needed)
- Packaging and labelling
- Quality testing and certification

This is your map. Each of these steps has costs.

Step 2: Write Down the Costs for Each Step

For every step, ask: what do we spend here? This list is to get you started; it is not exhaustive.

- **Labor:** how many hours and at what pay rate?
- Energy: firewood, electricity, diesel
- Materials: seeds, soil amendments, bags, boxes, labels
- Transport: fuel, truck hire, permits
- Overheads: salaries of staff, office costs, depreciation of machines
- Certification/testing: fees, lab tests, inspections

Even if you can't get exact numbers at first, make estimates. You'll refine them as you go.



Step 3: Choose a Way to Organize It

Activity-based costing: Track costs for each activity (drying, transport, etc.) so you can see which steps cost the most.

Standard + actual: Make a "standard cost" per kilo (e.g., drying normally takes 10 hours) and then record what it actually took this season. The difference tells you why one batch cost more.

Contribution margin: Subtract your variable costs (the things that change with each batch, like bags or energy) from the sales price. What's left must cover your fixed costs (like salaries and machines). If it doesn't, you're under water.

True-cost accounting: Add in social and environmental costs, like paying living wages or replanting. This makes your case stronger when talking to buyers who care about sustainability.

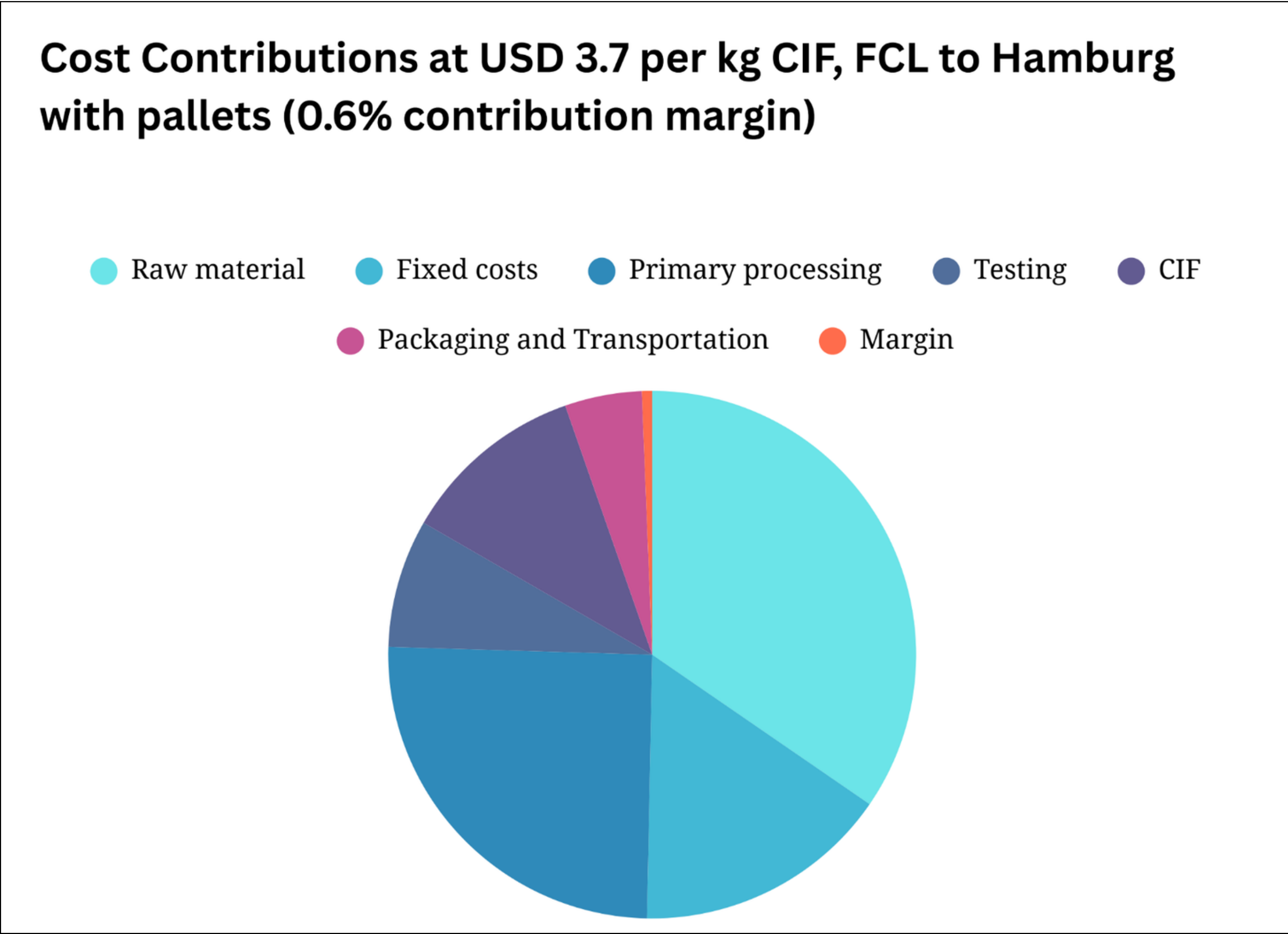
Step 4: Reinvest in the Unit

The point of margin is not just profit. It's what allows you to keep the unit healthy: machines (replacing or repairing dryers, sterilizers, or grinders); salaries (fair pay and benefits for your staff so they stay with you); compliance (certification renewals, lab equipment, audits); community/environment (forest management, soil labs, apprenticeships).

Step 5: Show it Clearly

Buyers don’t want to read spreadsheets. Turn your numbers into simple visuals. For example, a pie chart showing:

- 30% harvesting and collection
- 25% drying and processing
- 15% testing and certification
- 20% logistics and transport
- 10% overhead



A real example of what Nikita Agarwal ([Herb Artizan](#)) shared with a distributor pushing on price, after this the buyer stopped pushing.