



GREAT IDEA GIRL

Product Pricing Guide



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Who is this guide for?

This pricing guide is for independent artists & designers who have decided that they want to launch and operate a sustainable, for profit business. This guide is not necessarily for hobbyists which I describe as people who just want to make a little extra money on the side. If you're a hobbyist you may have a bit more flexibility in setting the prices of your product because you are not dependent on this income for your livelihood. That said, many people who are hobbyist tend to want to turn their hobby into a business and face a rude awakening if their pricing strategy was not sustainably established in the beginning.

What is the goal of product pricing?

For businesses, the goal of your pricing strategy is two-fold. First, to cover all of your current and future expenses with additional funds remaining which is your profit. Second, to appropriately value your item so that potential customers recognize and agree with this value and are willing to pay for it. The exact pricing strategy and your profit margin are impacted by both the cost to produce and customer perception so you want to consider both of these when establishing prices.

What information do I need to develop my pricing strategy?

In addition to knowing the goals for your business you must know what your current expenses are. Below is a list of business expenses common to independent designers making products for sale:

Overhead

These expenses generally remain the same no matter how many units of your product you make.

- Rent
- Utilities – Electricity, Gas, Water, Trash, etc.
- General Liability Insurance
- Communications – internet, cell phone, land line
- Legal & Professional Fees
- Professional Memberships & Professional Development
- Licenses & Permits
- Health Insurance
- Shipping & Transportation

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- Business Travel

Production Expenses

These expenses move in proportion to how many units of your product you make and sell.

- Supplies & Raw Materials
- Packaging
- Shipping > Outbound
- Labor – pay yourself!

Selling Expenses

Whether selling online, in person, in a store, or wholesale – there is always a cost to sell your products.

- Advertising & Marketing
- Online Store Fees – store platform, web designer, 3rd party apps, etc.
- Selling Fees – application fees, booth fees, etc.
- Line sheets

This list is a good starting point and your business may have other specific expenses that you need to include. A good rule of thumb is if you use it or do it – it's got to be paid for. #Includelt

A Strategy for Pricing Your Products

The formula for pricing your products that's most commonly used is called keystone pricing. This method assumes that a profit equal to the total cost to produce the goods is sufficient for you to cover all your expenses and earn a desired living:

Total Cost X 2 = Wholesale Price X 2 = Retail Price

Using an example from See Jules Sew, Jules calculates that it costs \$55 to make a single hat:
 $\$55 \times 2 = \111 Wholesale Price X 2 = $\$222$ Retail Price

\$222 "seems" like a lot but you can't go on your feelings, you need to check with the market to where this price falls. Find your direct competitors and see what they're selling their handmade fabric hats for. You shouldn't look at hats made in an overseas factory or those that are very different from yours in design, style, and fabric – you really shouldn't be competing with these sellers. As a handmade artisan, Jules is competing with other handmade artisans for those customers who know the value of handmade work and are willing to pay for it.

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Now Jules doesn't sell wholesale to other stores today so you would think that she could set her price at \$111. You're right if Jules is 100% sure that she will NEVER want to get into stores. If there is even the slightest chance that she does, she should prepare for it now and leave some profit in her price for these future retail stores to profit. The caveat to this is that most stores will not sell anything that they cannot earn at least 50% of what they buy it for because they have to cover their costs of operating a brick & mortar store and earn some profit themselves.

A Few Words of Caution...

I urge you to resist the temptation to exclude some of these fees because you aren't paying them now -or- you who work from home and would have to pay them even if you didn't have a business. The reason for this goes back to your goal of starting your business. If it's to grow your venture into a sustainable business, at some point you will have to pay for these things and if you haven't planned for them in your pricing strategy that will be sad day for your business.

If you build a business based on selling your handmade fabric hats for \$75 without including liability insurance or rent into the equation – what do you expect will happen when the day comes and you are forced to begin paying them? You won't have enough business income to cover the expense and you'll quickly be in the red. The other option is to raise your price to \$125 and hope that your customers who've gotten use to paying \$75 will keep buying your hats. This is **#NotLikely** because you built a business on a customer base of \$75 hat wearers not \$125 hat wearers.

Another common mistake is that designers will add up all of their costs and say “no one would ever buy a \$125 hat!” That most likely isn't true because seriously “do you know everyone?” Probably not. It's more likely that you personally cannot afford to spend \$125 on a hat and you don't know anyone in your circle who could. You have just learned one of the most valuable lessons about pricing – You may not be your businesses target customer! **#WhewChile** This is a hard thing for many creatives to recognize and grasp but it's essential to building a sustainable business. **Remember - It's business NOT personal!**

Taking the time to work through your pricing strategy will highlight any red flags that you need to pay attention to. It may be that you need to make some adjustments to your product like finding lower cost supplies or process, such as figuring out how to make your product in less time. If you've done all you can to change your inputs and the selling price is still far above what even a gazillionaire would pay for it, this means that your current product idea is not marketable. It's best to save yourself the headache and lost cash and come up with a better idea.

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Just for You!

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