

COSTING & PRICING YOUR PRODUCT RANGE FOR WHOLESALE

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PRICING YOUR PRODUCT RANGE FOR WHOLESALE

In order to ensure that the prices on your wholesale pricelist at Showcase 2014 are correct there are a number of factors you need to consider.

The aim of this document is to help you to prepare your product pricing.

In order to do that we need to ask a number of questions

1 What is the right market price & place ie: POSITION for your product?

2 What is the retailer Mark Up likely to be?

3 What are the component parts of your costing structure?

- Fixed Overhead rate
- Direct raw material costs (inc packaging)
- Your wage/ salary costs
- Any additional wage/ outsourcing costs
- Profit Margin

4 What is included in your hourly overhead rate and how do you calculate it?

5 How do you work out your hourly chargeable rate (salary)?

- Understand and include your complete personal financial commitments
- Design the business model- how many hours & weeks you will be productively active in your business

These questions are important to ensure you are targeting the correct market and that you have fully considered everything involved in getting that product market ready.

It is crucial to **KNOW** what it **REALLY COSTS** you to make a product-this involves building a clear picture of your raw material costs, fixed and variable overheads and your personal financial commitments. *This last piece is very important as without it you may run the risk of not earning enough from your work to enable you to continue.*

1. The Market Position- *determining the right price in the right place*

As with all issues relating to your business the first place you need to look is to the marketplace. Many craft businesses cost products based purely on an internal analysis of what it costs them to produce. I would suggest that the first step in pricing your product should be a thorough analysis of the market as it exists today and what your target retailers are choosing to stock. You should have designed a product that meets those conditions. **PRICE is a key element of your product. It needs as much consideration as all other elements.**

You need to clearly determine what the correct market position is for your product range and demonstrate that you can exceed expectations in terms of product and customer service.

Just because your product is 'hand crafted' does not necessarily mean that the correct place to sell it is a craft shop.

Think hard about who will buy it, why they will buy it and where they would like to shop for the solution you are providing.

For example

- A hand crafted silk scarf may sell for a higher price in a high end independent fashion boutique than in a craft or gift shop.
You may sell lower volumes but with a higher selling price and *increased margin*.

Remember that it is important to sell at **the right perceived price** for your product and this may in *some cases* mean that your costs *could* allow you to sell lower than the 'right market price'.

This is not always advisable. You could take the extra margin for yourself and where possible, allow the retailer additional margin. This makes your product more attractive to them and they will be incentivised to buy and sell more of your product. It may only apply to a small number of products within your range. Others may have higher production costs dictating tighter margins.

RETAIL CUSTOMERS

It is vital to complete the depth of research that will enable you to clearly identify **BY NAME** a network of *your* target retail customers. This is your hit list. Having this knowledge in advance of Showcase allows you to target potential outlets in advance and to **BE PREPARED** to do business with them at the fair. It also gives you a road map of who to approach post-fair if they have not engaged with you at the fair.

Remember there are a variety of different types of retailers attending the fair

- Craft shops –large or small, both have different needs and expectations and very possibly different mark ups.
- Gift shops- large or small & can include gift areas in other types of stores eg: pharmacies etc
- Independent fashion boutiques
- Department stores- giftware, tableware, fashion or accessories departments may be relevant
- Galleries-craft area specific (eg ceramics), craft gallery or Art gallery with limited range of one off craft work.
- Online Craft, Gift or fashion retailers
- Catalogues
- Shopping channels
- Remember there are international buyers attending and you should be aware who they are and what they sell already if they are important to you.

COMPETITORS

Look in detail at your direct competitors (people making in your exact product area eg jewellery) and indirect competitors (anybody who is selling the same solution eg gift for female for 90 euro)

Focus on their complete business offering. Know their prices and their mark up. Who do they sell to? What is their business model? How do they promote themselves? Have they established a strong brand presence? Do they export? Do they do much commission work?

You must really know their business to understand why they price the way they do.

How do you compare on price? How are you/ your products different or better? The word 'Unique' is too vague and does not adequately differentiate you.....describe the real added benefits (not features) your offering brings? Does this match the price you are asking?

2 What Mark Up do retailers ask for?

Retailer mark up varies a lot depending on the type and size of store and can be negotiated on a case by case basis. There are retailers using mark ups of (x 2) to (x 3)but as a general rule within current market conditions **it is advisable to allow for 2.4/ 2.5 mark up inc VAT when calculating your RRP on your Showcase pricelist.** Be prepared to give a *60% (2.5) margin or higher in return for volume and bigger orders

that normal. **US buyers express margins as a percentage eg 60% mark up is x 2.5 (you get 40% and they get 60%)*

Once you know your costs are correct you can create a pricelist that allows you room for manoeuvre when dealing with the different stores. Ensure that your cost price includes enough % margin to allow you to be flexible in your negotiations.

Remember that you always have a choice about who stocks your brand. Sometimes you need to say no.

The larger department stores and store chains tend to demand the highest margin – from 2.5 to as high as x 3. This might mean that you make less margin on their orders but you need to assess the following

- How your brand perception is affected by having these flagship clients. This may encourage other retailers and bring you more business.
- The scale of orders on offer through these larger retailers may also mean you can achieve greater economies of scale with raw material purchases.
- It may also be of benefit to your cashflow to have these larger amounts moving through your accounts at key periods.

Make choices based on a full assessment of the **total worth of the client to your business not just the value of the order**. If you perform as a supplier and offer excellent customer service and innovate to continue to excite them with new products you may start a long and worthwhile relationship where margins can be renegotiated.

Attracting new customers is an expensive business requiring time and financial investmentbuild strong relationships that benefit you and the retailers you attract, this will help you retain customers and grow your business.

How much do I need to earn annually?

Calculate the personal income you need.

How much does the business need to pay you as a wage to cover the following personal expenses?

Grocery shopping

Mortgage / Rent (home)
Electricity (home)
Heating (gas /other)
Insurance (House, Car, life, pet, health etc)
Pension costs/ savings
Personal loan repayments (how much and for how long)
Car running costs (tax, petrol, maintenance, parking) or public transport costs
Entertainment/ travel
Clothing for self and dependents
School fees/
Holidays (including Christmas)
Gifts (do not underestimate this as an annual expense)
Etc, etc (add as appropriate to your own circumstances)
How much more will you add in as additional discretionary income?

Sample equation to determine personal chargeable hourly rate.

This is what you will earn from your business and how much each **hour in production** needs to **be charged at**.

$$\begin{aligned}
 & \mathbf{42 \text{ weeks (52-10 weeks not working**) } \times 3.5 \text{ days per}} \\
 & \mathbf{\text{week in production (allows for admin/ management time) } \times 8 \text{ hours per day}} \\
 & \mathbf{= 1,176 \text{ hours per year}}
 \end{aligned}$$

In this case you divide the annual income you need to earn by 1,176(or equivalent) to determine your chargeable hourly rate so you can include this in your product pricing calculations.

This equation assumes a particular work /life balance. You need to determine and plan for the commitment (ie focused production hours) you will dedicate to your business. There is no 'right' number of hours as it will be determined by factors and commitments in your life.

Do you have another income source that can supplement the above personal overheads? If so take this into account.

This is where you should think hard and design your business to deliver a lifestyle that 'fits' you rather than live a life dictated by a badly (or un-) planned business.

** 42 weeks allows for holidays, illness, family commitments, periods spent in personal development- amend as appropriate.

ESTABLISHING YOUR BUSINESS COSTS

It is extremely important to establish what the fixed and variable costs are for your business. You cost or price a product accurately without this information.

Variable costs fluctuate directly with Sales (for example purchases of raw materials)

It is vital to have a clear understanding and control of your **variable costs** and to reduce these costs where ever possible through economies of scale or group buying.

This is a vulnerable area especially if importing materials with currency fluctuations.

Planning your finances, to allow good stock control, can help you respond to orders efficiently and allow you to order materials time efficiently and cost effectively.

Fixed costs are costs that do not change when sales change (for example rent)

The following costs should be included in your annual cash flow projection. It is essential that you have the cash in hand to deliver on orders and to see cashflow issues that may need

addressing before they impact your business.

Know your business costs for the year projected
Raw materials(inc packaging, labels, POS materials)
Staff costs (wages plus Employers PRSI) or out sourced production costs
Rent (workshop/ studio)
Light and Heat
Telephone/ Internet
Stationery, photocopying and printing
Transport costs
Insurance
Advertising/marketing
Accountancy/book-keeping
Legal fees
Web site costs
Hire Purchase of assets
Computer and printer costs
Salary I need from the business
Taxes
etc