

ual:

How to Cost and Price your Work

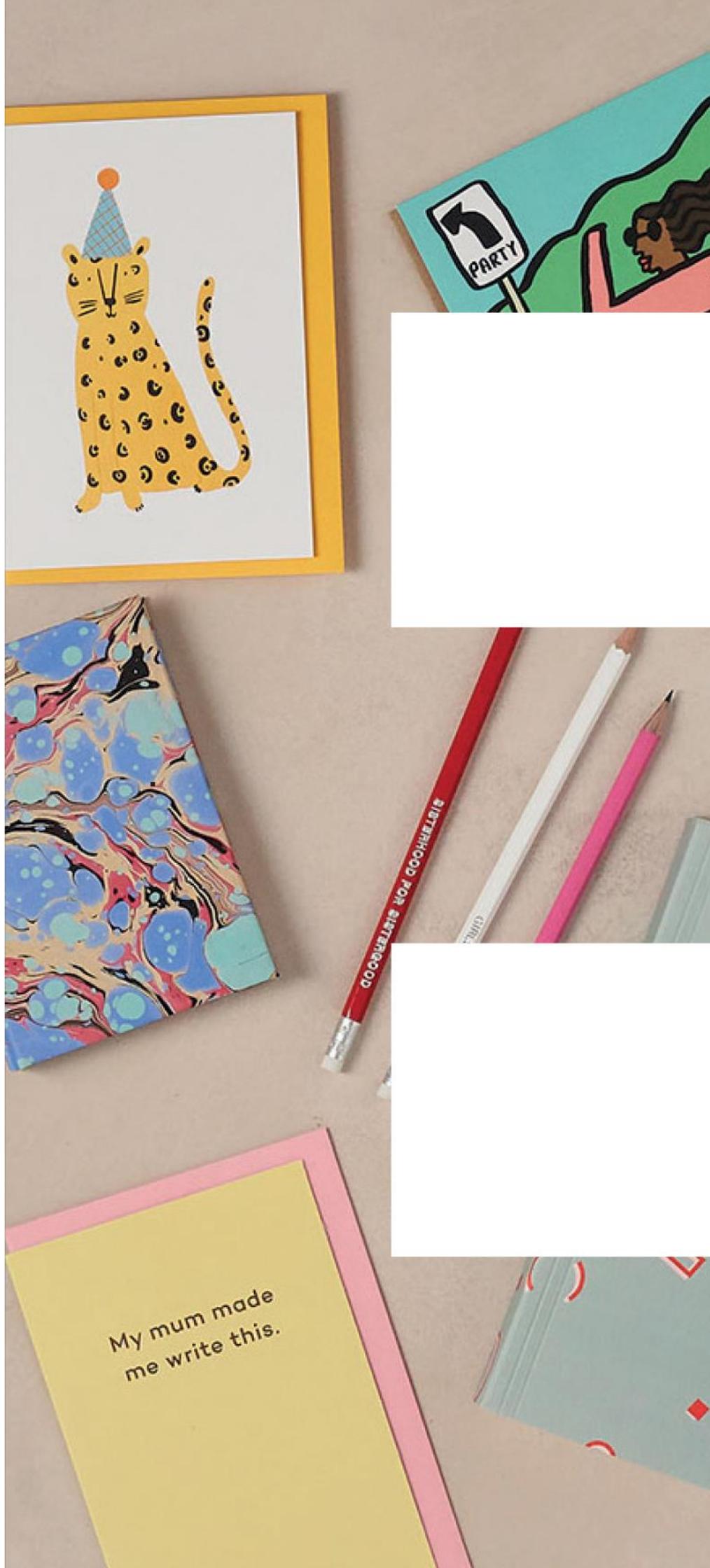
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Costing and pricing your products correctly is essential to the success of your business. You need to make sure that don't undersell yourself, whilst also keeping your prices realistic.

Common costing and pricing mistakes

These are most common costing and pricing mistakes we see from people applying to sell their work in **not just a shop**:

Charging too little

It's essential that you take all your costs into consideration when coming up with your prices. It's also good to research your competitors to see what they are charging.

Charging too much

Sometimes we receive applications with prices that are just not feasible. We want you to make a good living but it's important that you research what your competitors charge and how you compare.

Incorrect retail price

The retail price is what our customers pay in store. It's based on what you charge to your stockists (your wholesale price) plus the shop's mark-up (to cover costs such as rent, staff etc). Most professional retailers will have a mark-up of between 200-300%, so if you aim for a mark-up of 2.5 (or 250%) then you follow best practice.

How to calculate your prices

Cost price

This first step helps to determine the absolute minimum you need to cover all your costs. Knowing your cost price is important because it forms the basis of how to calculate your wholesale and retail prices, ensures that your business is viable and takes into consideration all of your expenses.

Step 1 - Calculate your annual overheads.

This includes: your studio rent, insurance, telephone, internet, marketing, admin, packaging, postage etc. Basically everything that is not related to your labour or materials. Check your invoices and receipts and add all of your overheads for the year together.

TIP: Having a workspace increases this amount significantly, especially if you work in London. If you are able to work from a free or cheap space then your business will be profitable more quickly.

Example figure: £8,350 per year

Step 2 - What salary do you need?

How much money do you need to make in a year from your creative work? Be realistic here and make sure you have enough to cover your living costs.

If you have another job, take that salary into consideration too. For example, if you need to earn £23,000 a year to cover your basic living costs, but you earn £15,000 per year through a part-time job, then you only need to raise £8,000 through selling your creative work.

Don't forget to take tax and National Insurance into consideration. If your profits are above £11,000 in the UK (your personal tax allowance in 2017/18) you have to pay 20% in tax. Find out more about the tax you'll need to pay here: www.gov.uk/income-tax-rates

TIP: It can be difficult to achieve your salary goals in the first few years of business, but if you don't include a realistic salary then you will never charge a professional price for your work.

Example figure: £8,000 per year

Step 3 - Calculate your hourly rate

You calculate your hourly rate by adding your total overheads per year (step 1) to your annual salary (step 2) and dividing it by your total billable hours for the year.

A common mistake is that people assume that they can work for 40 hours per week, 52 weeks of the year. In reality, you won't be able to charge or invoice for all of the hours you spend on your business. You'll need to spend time on other areas of your business such as marketing, finance, professional development and design. Although these other jobs contribute to your business, it's only when you make products to sell that you can generate money.

Instead of 40 hours x 52 weeks of the year, it's more realistic to think that you will produce sellable work 40% of your time, so 16 hours (2 days) per week. Multiply this by 48 weeks per year - to allow you to take Christmas off, have a summer holiday and take some sick days if needed – and the total in this example is 768 hours.

To calculate your hourly rate you'll need to add your annual overhead costs (step 1) to your salary (step 2) and then divide this to the total billable hours. In our example this would be:
 $£8,350 + £8,000 = £16,350 \div 768 = £21.29$ per hour.

If you're working on your business 2-days per week then you will need to generate a minimum of £340.64 each week (hourly rate x 8 hours x 2 days) just to cover your overhead and salary costs. If you earn less than this on average, then your business will be running at a loss.

Example figure: £21.29 per hour

Step 4 - How long does it take you to produce one item?

Don't guess this; time how long it actually takes you to assemble, package and post one item. If you normally produce in batches then use the average time (e.g. if it takes you 3 hours to create 6 products from start to finish then the average time spend is 30 minutes).

Time spent designing is already included in your non-billable time so you only need to include the time you spend making products to sell.

For this example let's say it takes 1 hour 45minutes to make one item. To calculate the cost, multiply your hourly rate from step 3 (£21.29) by 1.75 = £37.25

Example figure: £37.25 per item for labour

Step 5 – What are your material costs?

Look at your receipts to calculate how much it costs you in materials to produce one item. Don't forget to include packaging materials too. If you create work in batches, divide the overall material cost by the number of products you create to calculate the cost for one.

It can be tempting to choose cheaper materials to keep costs down, but consider your choices. For example, cheap zips can break easily so investing in good quality ones could increase the appeal of a product and reduce faults and returns.

Example figure: £12.50 per item for materials

Step 6 - Add contingency

Adding a small contingency will help you when things don't go as planned or customers want a discount. It's good practice to add 10%.

Step 7 - Calculate your final cost price

Take your number from step 4, then add your material cost from step 5 and 10% contingency.

In our example this is
 $£37.25 + £12.50 \times 110\% = £54.73$.

This is your cost price, with all costs taken into consideration. However, this is not the price that you sell it to your customers, stockists or **not just a shop** for. Now you have your cost price, you can use it to calculate your wholesale and retail prices.

Example figure: £54.73 cost price per item

What are cost, wholesale and retail prices?

The cost price is what it costs you to produce one product. If you sell all the products that you create then you would in theory cover all your business costs including: your overheads, your materials and your time.

If you are also selling your products to shops, galleries etc. then you need to calculate your wholesale price and recommended retail prices too.

Wholesale price

This is what you sell your products to retailers for. Normally this would be around twice your cost price. In our example we'll round this down from £109.46 (2 x £54.73) to a more appealing £99.

It's your business so you have some flexibility in terms of how much you mark-up your products. Just remember that if you undercharge, you won't make a profit.

If your cost price is over £100 then add less than double to create the wholesale price e.g. if your cost price for a large painting is £750 then your wholesale price might be around £1,000.

Example figure: £99 wholesale price per item

Retail price

The retail price is what customers pay to buy your product in a shop. It's made up of your wholesale price with the retailer's mark-up added on. This varies depending on the shop, but most retailers have a mark-up of between 200% and 300%. An acceptable retail price is your wholesale price multiplied by 2.5 so if your wholesale price is £99, your retail price would be £249.

If you do choose to work with retailers, it's important that you sell products through your own website or online marketplaces (such as Etsy and Not On The High Street) for your retail price too. If your product is for sale for £249 in **not just a shop**, it should be the same price on your own website. If you undercut the retailers selling your work, they will struggle to sell your products and their buyers will stop working with you.

Example figure: £249 retail price per item

Consumer price

If you want to sell your products directly to customers only - and have no plans to work with retailers - you can sell them for slightly less. If you're at the beginning of your career and not yet established, adding 50-100% to your wholesale price should give you an acceptable consumer price. Do your research and explore what similar products are selling for to help you to decide on your figures. Note that this is the price that you charge if you only want to sell to customers directly through your own website or at events.

Pricing terms

Term	What is it?	How to calculate?	Example
Cost price	How much it costs you to produce one item, covering all your costs.	Use the 7 step calculation and include all costs including your overheads, your hours and materials.	£35
Wholesale price	The price you charge a retailer to buy your product.	Normally around 2 x your cost price, unless you are very new. If above £100 multiply by less.	2 x cost price = £70
Retail price	The price customers pay to buy your products (online or in a shop).	Normally between 200 – 300% of your wholesale price.	2 - 3 x wholesale price = £140 - £210, so probably £175
Consumer price	The price you sell your products to customers for if you don't want to work with retailers.	Normally 150-200% of your wholesale price. If you are working with retailers too make sure you stick your retail price.	1.5 – 2 x wholesale price = £105 - £150, so probably £125

What to do if your costs are too high?

Going through the calculations above may highlight that you should be charging much more for your products. However, it's important that you strike a balance between earning a fair wage and keeping your prices low enough that they will appeal to customers.

If you think your price calculations are too high, consider doing the following:

- Get quicker at making your products – this can be achieved through practice, batch production or focussing your time better.
- Reduce your overheads – if you have an expensive studio space, consider finding somewhere smaller or working from home until you're more established.
- Sell more products - spend time on targeted marketing in order to achieve more sales.
- Make sure your salary expectations are realistic – you shouldn't expect to earn the same as an established creative when you're starting out. Do research to help you to set a realistic salary for yourself. You might also need to find an additional part-time or freelance job to cover some of your costs.

Find your niche

Are you competing with the high street? If you are making products that are readily sold in mainstream shops, you will struggle to sell them for a good price. Mass produced products will always be cheaper to manufacture, so your products will always be more expensive.

Functional and gift items also tend to have a ceiling in terms of what people are willing to pay for them. Most consumers have a specific budget in mind when they purchase products such

as mugs and notebooks - so it can be difficult to charge more than that. It's better to focus your efforts on producing unique products that people are prepared to pay a little extra for.

Think about who your ideal customers are and develop products based on what they want. What might they be prepared to pay extra for and how can you add value without increasing your costs? Ways to increase perceived value include:

- Developing a branded box to present your jewellery in
- Providing a simple but good-looking frame for your prints
- Creating a larger/more unique cushion shape than those that are readily available on the high street
- Using unusual materials and craft manufacturing techniques to help your products stand out next to mass manufactured ones.

Unique selling point

Having a strong brand is much more than coming up with a memorable business name and logo. Think about your unique selling point (USP); what makes your products different from all of the other ones for sale?

- Are your products handmade, recycled, organic or Fairtrade?
- Are they made from innovative materials or created using traditional craft or digital manufacturing techniques?
- Are they limited edition or is each one is unique?
- Do you offer a bespoke service?

Once you've settled on your USP, use it to develop your brand and sell your products. Talk about it on your website, your product labels and when you're talking to stockists or customers. If you continually tell the same story it will help you to develop a strong brand and your products will start to be known for their USP.

Know your market

It's important that you have a target market (customer base) for your products. Who will buy your products? How old are they, where do they live, and what interests do they have? Keep these customers in mind at all times; create work that will appeal to them and try to sell your products in places where they shop. Come up with a list of dream retailers and approach them with your products.

Start to build your own customer base too. If you sell your work at events, encourage people to sign up for your newsletter and follow you on social media. Build a relationship with them by sending out regular emails. The journey from seeing a product to buying it can take a while - especially if you're selling something expensive - so it's important you remain on their radar.

Registering with HMRC

If you're self-employed and running a business in the UK you must register with HMRC as soon as you earn more than £1,000 in a tax year. You will need to register as a sole trader, keep your invoices and receipts, fill in an annual tax return, and pay any required taxes and National Insurance. You can find more details on the HMRC website here: www.gov.uk/set-up-business

VAT is a tax (it stands for Value Added Tax) that is charged by most businesses on top of what they charge for their products or services. Every quarter they calculate exactly how much VAT they charged and how much they paid out, and then offset these figures against each other. This means that you either pay HMRC the VAT or get paid some of it back.

However, you can only charge VAT or claim VAT back if you are VAT registered. In the UK the VAT threshold (the amount where it becomes compulsory) at the moment is £83,000 turnover per year. There are circumstances when it might be beneficial to register for VAT voluntarily (e.g. you have a lot of expenses) but otherwise it's not recommended to register for VAT unless you are close to the VAT threshold, as you will have to deal with lots more paperwork. If you do become VAT registered, it's worth getting an accountant to help you manage this paperwork.

When you send an invoice to **not just a shop** or other retailers, do not include VAT unless you are VAT registered. If you receive an invoice with VAT added then you do need to pay the VAT. If you use the recommended 250% to calculate your wholesale price into the retail price then indeed 20% of that will be going to HRMC via the retailer (if they are VAT registered). They will manage that so you won't need to take any action on this.

Top 5 tips

1. Calculate your costs accurately – if you charge too little you will lose money and your business won't be sustainable.
2. When you are starting out, you can't expect to charge as much as well-known designers or brands.
3. The retail price is based on the retailer's costs (including their rent, staff costs, business rates etc.). Some retailers, especially in key locations in London, might charge 3 x wholesale price because of their high outgoings. However their customers might be able to spend a little more.
4. You can't dictate the ultimate retail price. Some retailers might charge more and others less, but if you use the 2.5 as a guideline then you are always correct and within the professional guidelines. If a retailer chooses to charge more or run a discount/sale with your products they can.
5. If you sell products directly to customers through your website or at events you must charge your retail price. If you undercut your retailers their buyers will stop working with you.