

PRICING 101

HOW TO FIND YOUR RIGHT PRICE

With Tara Swiger

SESSION 1: PRICING MATH

Find the recording for this session here: <https://s3.amazonaws.com/taraswiger.com/Pricing101/Pricing+101+part+1.mp3>

Please note, this is not a word for word transcript, but a general outline of what I say in the recording. You can choose to listen or to read. You'll find the worksheets embedded in the transcript so that you can fill them out as you read.

TRANSCRIPT

In this class, we are going to set your right price for your items.

How this will work - you will learn about an area, and then you fill out a worksheet to apply it to your own business! I'm going to challenge you to actually DO THE MATH while you listen - that's the only way to get the most out of this experience. Listen along, hit pause, do your figuring, then un-pause and move on to the next bit.

There's no theory in this; it's all math and common sense.

WHAT YOU NEED TO GATHER:

- ★ The class workbook - this is what will lead you through doing the equations. Print it out to fill it in or have it pulled up on your device and use a piece of paper, notebook, or Word doc to put your answers in. (I find that writing it out in pen & paper is the easiest way to do this.)
- ★ A list of your products - what you sell or what you're going to sell, and the price you charge now or the price you plan to charge for each item.
- ★ A list of all of your costs - what you spend on all of the materials that go into making your goods and on every other aspect of your business (business cards, Etsy fees, website hosting, etc.).

If you've already done Pay Yourself, you probably have this handy. Great! If not, that's okay, too! Go get this information, organize it in a format that will be easy for you to use, and come back!

IN THIS SESSION WE'LL COVER:

- ★ All of your costs
- ★ 3 different pricing equations

IN THE SECOND SESSION:

- ★ How to get the price you want
- ★ Pricing strategies and how they fit in with your brand.

We'll start by learning everything about your costs, so that your price not only covers your costs, but provides you with a profit.

Then we'll work to understand your costs: You have to know what your supplies cost you before you can possibly know what to charge for your product.

Understanding your costs also helps you find ways to improve them!

THERE ARE THREE MAIN TYPES OF COSTS YOU NEED TO UNDERSTAND:

1. Direct costs: (COGS)

- ★ materials used to make the item (ex. yarn, fiber, dyes, shipping costs to get the product to your door)
- ★ packaging
- ★ PayPal fees per sale
- ★ Etsy fees per item

2. Indirect costs:

- ★ your time (admin, etc)
- ★ Overhead (website hosting, accountant or attorney fees, etc.)
- ★ Anything that can't be broken down into the individual items that you sell, including something like thread (you can average out how much you spend on it per month rather than trying to figure out how much thread you use on every product that you sew).

3. Time:

- ★ to make
- ★ to design
- ★ to list
- ★ to photograph

Think of time as Labor - what if you had to pay someone to help you make this item?

Not every pricing model will pay you \$X for every hour you work, but before you determine your costs, you MUST know how much time you spend on something. Don't skip this step!

You must also consider PROFIT. What is left over when you pay for all of the above?

If all your business did was to pay you back for your costs, then you wouldn't be making any money!

FILL IN WORKBOOK, BIG MONEY PICTURE.

Stop now, and do this:

- Make a list of the products you sell.
- Make a list of your overhead costs. (NOTE: These are ONLY the costs you use because you run a business. The rent on your apartment doesn't count, because you would have to pay rent even if you worked a more traditional job. The price you pay for utilities counts if you're using a lot more utilities for your business than you pay for your personal use.)

Once you've filled that out, come back and hit PLAY!

BIG (MONEY) PICTURE

What are the different products you sell?

What are your overhead costs?

(List them all - and include the cost, if you know it.)

How much would you like to earn (for your own pay) each month?

What's the minimum?

What's the Ideal Scenario?

LET'S GET CLEAR ON YOUR IDEAL PROFIT:

1. What do you want to make each month in profit? What's the minimum that you'd like your business to pay you, and what's your ideal scenario?

Take into consideration how much you work on your business, to make sure that the amount of profit you want to make actually reflects the time you spend on it (which may be part-time or full-time right now, and either scenario is okay!).

2. How many items can you make a month?

How many can you make each week or day?

This is a big question. All of your earning potential revolves around how many you can actually make in a period of time. For most of us, this is a finite number.

If you can make many items, then they can each have a smaller profit margin. If you can only make a few, the profit margins need to be higher.

Remember to take into consideration how much you can make in the hours that you actually work on your business, NOT how much you could make if you worked at your business during all of your waking hours.

You also need to figure in that you should make a few extra (or slightly raise the profit margin and price on each item) to account for the items that you will take the time to make but that won't sell when you list them.

AT THIS POINT, YOU SHOULD HAVE FILLED OUT THE ENTIRE WORKSHEET, BIG MONEY PICTURE.

Get all of your numbers together for the next step!

TURN IN YOUR WORKBOOK TO PAGE 8, PRODUCT PAGE.

Now, before you're ready to figure out your price, let's look at the real numbers for a real product. I've given you one *Product Page*. Right now, pick ONE product to do this math for. Then, when the class is over, you can repeat this process for your other products (print more copies of the page or repeat it in your notebook).

On the product page:

List your Direct Costs, COGS, packaging costs (wrapper, tag, etc.) + your fees. Find the number that represents the cost of making ONE item. (If you order your materials in bulk - enough to make multiples - divide it down into the cost of ONE item.)

Add these costs up. This is your Cost of Goods Sold. This is what it costs you to make one item and only one item. You can NOT go below this number, no matter what. No sale, no wholesaling, NOTHING should take you below this cost. (example: If I have a yarn base that I pay \$6/skeins + shipping + fees, I can NOT sell it for below \$8, or I will lose money).

THE NUMBER YOU GET WHEN YOU ADD UP ALL THE COSTS FOR THIS ONE PRODUCT IS THE ABSOLUTE NUMBER YOU CANNOT GO BENEATH WHEN YOU PRICE THIS ITEM.

Of course, you can't just charge a few dollars more than this, because we have that overhead and the profit margin you want to earn, right?

Write in the time it takes to make this ONE item. (If you usually make 5 products at a time, divide the total time you spend by those 5 items to figure out the time it takes to make just ONE.)

Also write down your desired hourly wage for MAKING this item.

What would a skilled artisan make if you hired them to do this?

No matter what: Don't go under \$12/hour, and you probably don't want to go above \$100-200/hour.

This isn't necessarily what you're going to pay yourself, but we will need some kind of number for the equations.

PRODUCT PAGE FOR _____ (NAME OF PRODUCT)

Cost of Goods Sold (materials) for this product:

(List them, with the cost per **one** item.)

Don't forget packaging + fees!

Now add all this up for your COGS of ONE item: _____

Time it takes to make one item: _____

How many of these can you make in a month? _____

Desired hourly wage: _____

To figure out how to actually price each item, we're going to try three different pricing equations for this ONE product.

Method 1: Direct Material Costs

Use this method when your materials are your biggest cost.

Method 2: Direct Labor Costs

Use this when your time is your biggest factor.

Method 3: Percentage of Costs

Use this when time AND materials are expensive.

FLIP TO THE NEXT PAGE FOR THE PRICING METHOD EQUATIONS WORKSHEETS AND USE IT TO WORK THROUGH ALL 3 EQUATIONS.

You will probably find, at the end of this activity, that one method or equation works really well for you and one or both of the others don't work at all. However, you need to do ALL THREE at least once to get a good handle on possible prices, and to learn more about your business.

Listen along as I guide you through the process of figuring out the math for your product for each equation. Hit pause as often as necessary to work the math.

PRICING EQUATIONS:

1. Direct Material (a good equation for when your material costs are high)

A = How much do you want to make each week? _____

B = How many of this item can you make each week? _____

$A/B = \text{_____} = X$

$\text{COGS} + X = \$\text{_____}$ (price of one item)

2. Direct Labor (a good equation for when your labor is high)

A = Hours it takes to make one item = _____

B = Hourly wage = _____

$A \times B = \text{_____} = \text{Price of Time}$

$\text{Price of Time} + \text{COGS} = \_____ (price of one item)

If you sold half of all you could make in a month...how close does this come to your desired income?

3. Percentage of Costs (a good equation if you have to make big supply orders, or only sell a few different products)

A = Total you spend on direct costs (materials) in a month = _____

B = Total you spend on overhead (everything else) in a month = _____

C = Total profit (above costs) you want to make in a month = _____

$A+B+C = X = \text{_____}$

$X * 115\% = \text{Desired Sales} = \text{_____}$

$\text{Desired Sales}/\text{how many items you can physically make in a month} = \_____ (price of one item)

Wholesale price: _____

Retail price = Wholesale price x 2 = _____

ONE MORE PIECE OF YOUR PRICING PUZZLE: RETAIL VS. WHOLESALE

Wholesale price (what a shop pays you when they order your products) is usually 50% of your retail price.

So: The prices you've developed here in the equations would be your WHOLESALE price, then you **double** it for the retail price.

If you don't build in wholesale pricing to start with, it will be nearly impossible to move to wholesaling later, while staying profitable.

GO TO THE NEXT PAGE IN THE WORKBOOK - WHAT DOES IT ALL MEAN? - AND FILL IT OUT NOW AS I WALK YOU THROUGH IT.

At the end of this session, you should have:

- ★ Your Big Money Picture worksheet filled out.
- ★ Your Product Page filled out for one item.
- ★ Worked through all 3 pricing equations for that one item.
- ★ Filled out the worksheet, *What Does It All Mean?*
- ★ Picked a pricing equation or formula that makes you feel the most comfortable for selling this particular product.
- ★ When you have done all of that, it's time to move on to Session Two!

WHAT'S IT ALL MEAN?

What's the difference in the prices you got from each equation?

What surprised you?

Which one seems "right" to you?

The prices of three competitive products:

- 1.
- 2.
- 3.

What does your price say about this product - its quality, craftsmanship, etc.?

What does this price about say about your brand?

Your final price for this item:

Double check!

If you sold your item at this price, and you sold just 50% of what you can physically make each month, would you make your desired income (including covering overhead and supplies)?

(Note: Pay Yourself will go into this double-check in detail!)

SESSION TWO: GETTING THE PRICE YOU WANT

Find the recording here: <https://s3.amazonaws.com/taraswiger.com/Pricing101/Pricing+101+part+2+.mp3>

IN THIS SESSION WE'RE GOING TO TALK ABOUT:

- ★ Getting the price you want
- ★ How to deal with the competition (and their pricing)
- ★ A few pricing strategies you can choose from to set your price, make sales happen, or just define your brand

HOW DO I EVER CHARGE ENOUGH?

First, you've got to figure out if your price is really where it needs to be. If it isn't, change it now!

If your right price is too high to reasonably charge...

- ★ Your business model isn't sustainable because your supplies are too expensive
- ★ You're not efficient enough in your use of time
- ★ Your overhead is too expensive.

If your right price is too low ...

- ★ Maybe you don't feel your product is worth much
- ★ You're not comfortable charging the price you deserve.

Pricing is about perceived value to the motivated buyer. A motivated buyer will pay the price that she feels is equal to the value of the item.

For Example: yarn at Michael's vs yarn at a cute local yarn shop, or Jewelry at Target vs jewelry in an art gallery

The buyers are asking: *What is this worth to me?*

You determine this: you tell your customer how to value your product, using:

- ★ Your words
- ★ Where it's located
- ★ If online: the photos, how it's styled
- ★ Everything around it: correct grammar, professional design, branding

This all makes up your brand.

Start with the ideal customer:

- ★ Get an idea of who she is and why she's shopping for your thing.
- ★ Speak directly to her. Tell her what your product provides for her, focus on what she cares about.

The way you communicate with your customer greatly influences how much you can charge. The answer to the question - *How can I charge what I want to charge?* - is: **marketing!**

TO GET THE PRICE YOU WANT, & CREATE THE KIND OF BRAND THAT DEMANDS THAT PRICE, YOU HAVE TO BE OK WITH THE PRICE.

You need to feel like this price is in alignment with:

- ★ You
- ★ What you want out of your business
- ★ The kind of work that you do

If you're not comfortable with your price:

- ★ You won't actually ask people to pay it.
- ★ The discomfort you feel will show through - on your face when you tell people at a craft show, or in the words you use online to explain the pricing because you feel like you have to defend it. (Hint: it's unattractive to your buyers if you get defensive about your prices in your shop.)

The price you charge has to be right for you, not for other people or what they charge for a similar product.

A note about competition ...

When you're getting started, it's good to know what people are charging, as a range.

And every once in a while, maybe you want to check in to see if that range has changed. But BE CAREFUL!

Your competitors may be charging more than you because they have had a lot of publicity and have a bigger customer base.

They may be charging less than you because that's what their customers expect, or because they haven't had any sales yet, or because this is just a side hobby for them and they don't care about making a living.

They may be charging less because they don't have the skill, the style or the quality that you do.

Remember this: You are building a sustainable business based on the things you want most from that business (+ your life). Other sellers are doing that, too - building a business that is based on what *they* want. You can't change them, so instead focus your energy on communicating with your buyers to show them the value of what you make.

So, while it's good to check out super rarely, you do NOT want to set up your pricing based on other sellers. You can't possibly see inside their business to understand why their prices are set that way, so stop obsessing over other peoples' prices!

When you settle on a price that you're happy with, if that price happens to be within the range of what other people are selling, that's fine. But don't force your price to fall somewhere within that range just because you think it should, or you think you have to keep up with the market.

Why? *Cognitive Dissonance.*

If your price is based on someone else's price, it won't be coherent with your entire brand. And when customers see an item that doesn't seem to fit with the price, they will feel that lack of coherence and click away and not even consider purchasing that item. The price you set has to match up with what you're making and with your brand as a whole. If it's too low or too high, it will be unsettling for your customers and unsatisfactory for you.

For one thing, if you aren't making what you need to make to cover your cost, you are very soon going to be completely overwhelmed and unable to continue. But before that happens, you'll feel resentful and stop loving it.

And if you're overcharging, the customers will figure it out when they see the quality/skill.

For another, YOU have a great style and that will attract the right people. If you price based on OTHER people's customers, your right people won't feel resonant with it.

And that brings us back to making sure YOU are ok with your price.

Once you've figured out what you HAVE to make to cover your costs and you know what you want for profit, ask yourself: what are you comfortable with?

If you are not comfortable with a new, larger number:

- ★ Make the changes incrementally
- ★ Look at your costs

- ★ Look at your heart - what are you uncomfortable with? What would make you more comfortable?

Look through all of the happy e-mails you've ever gotten from customers, and make a list of all the value your work brings into the world.

Sometimes it helps to think: Why are you doing this? Is it to share your passion with the world?

YOU'RE COMING FROM A PLACE OF AWESOMENESS, AND AWESOMENESS DESERVES TO BE PAID.

Remember, a price that lines up with your needs will be Right for the Right People.

You simply must have faith in this (or be working on it) before anyone else is going to be comfortable paying it.

This all culminates in asking for the price:

- ★ Go after the right people (the people who will love you).
- ★ Explain the value (not apologizing!). Be clear about what goes into it: your materials, your skill, your experience. Don't make them guess.
- ★ Have a consistent brand, make sure everything demonstrates your commitment to high quality (high-priced = luxury).
- ★ Differentiation: what's different from everyone else? You do NOT need to mention your competitors, just mention what you DO do (ex. eco-friendly).
- ★ Reputation: Are you an expert? How can you demonstrate this?

I cover this process of communicating the value and the benefits extensively in my book, *Market Yourself*, and in the [Marketing for Crafters class](#).

Pricing as Strategy

So, you've figured out a few possible prices, or a range of prices. How do you actually decide what to charge?

PRICING STRATEGIES:

1. Low Prices

This strategy might work to entice people to give you a try (by pricing lower than the rest of the market). But remember: this will give people an idea about the quality of your item - they will assume it's a lower quality because it's so cheap. The closer you get to pricing your products at a Wal-Mart level, the more you will just end up losing your customers to Wal-Mart.

Sometimes this strategy works in person (ex. Special pricing just for this craft show!), but online if people see your prices set super low for a limited time once, they're unlikely to come back later and pay a higher price for the same thing.

2. Build your reputation

This is where you give a special price or even a free sample as you're first building up your business (ex, lower prices in exchange for testimonials, or beta-testing).

This happens a lot in the book world - you give a free copy of your book to advance readers, who review it to spread the word.

It also works well for a service-based industry; you can charge a lower price at first in order to gain experience and build your reputation.

3. Higher prices

This is a way to show specialness/uniqueness (by having a price on the higher end of the range in your market). But you have to communicate that specialness, or else you're just the person who's charging more than everyone else.

This strategy also works well to highlight certain products that are very limited or one-of-a-kind (ex., art originals vs. art prints).

When you determine your price, ask yourself: how does this strategically help my line or my brand? (Refer back to the *What's It All Mean* worksheet for the notes you wrote about this.)

RIGHT NOW: SET A PRICE FOR THE ITEM YOU'VE BEEN DOING THE MATH FOR.

You can't go wrong! Pick a price that feels comfortable and works with your math.

But double-check yourself: If you sold only 50% of the products you can make in a month, at this price, would you completely cover your expenses for the month (including your overhead) and still have money left over to pay yourself?

(This is the math we go deep into in *Pay Yourself*, so if you haven't taken that class, you need to do that next!)

NEXT, GO AHEAD AND DO THE MATH FOR ALL OF YOUR OTHER PRODUCTS, AND SET PRICES FOR THOSE.

This is an experiment! You need to be willing to change your prices now, and see what happens. You might be surprised by the results!

And, if you change your prices but your items aren't selling, you can change your marketing, change your branding, or even lower your prices a little bit and see if that helps.

If you already have a LOT of regular customers, you can make an announcement about the price increase before you do it, which might even cause a burst in sales at the current prices. Don't make a big deal out of it; if you don't have a large audience of regular buyers, probably nobody will notice that you've changed your prices. Just do it!

Thanks so much for joining me! Here's to having a very profitable, well-priced business.

Tara

RESOURCES!

BOOKS:

Boss of You

This book got me to really reassess my pricing. Fabulous breakdown of different pricing formulas for products, services, and other stuff. I LOVE this book!

Crafting for Dollars

An old-fashioned book, with a small section on pricing. It contains 7 (!) different pricing methods, which is where I got most of the Pricing Methods section in this class. A great book for reminding you all of the different ways you can make money with your crafting.

Handmade Marketplace

A great book for getting started selling. The pricing section is small and doesn't give specifics, but it does have a bit of smartnesses on offering coupons and discounts

ONLINE:

[Productive Flourishing's 3 Ps of Pricing](#)

A three part series that is a GREAT breakdown of all the things that will affect your price.

[Fluent Self's Art + Science of Pricing](#)

A look at the "softer" side of pricing: feeling ok with it, recognizing the hard.

[Pricing is not a benefit](#)

My post on not competing with Wal-Mart

[The Power of the Right Price](#)

What I learned about pricing while vending at a craft show.

[Pricing as a Marketing Strategy](#)

Pricing is one of the 4 Ps of Marketing.

If you have any questions, e-mail me: tara@TaraSwiger.com If you'd like to learn more about the Starship, visit my website: <http://taraswiger.com/help/starship-adventure/>