

Pricing

# 7 Things To Consider When Pricing Your

## Craft

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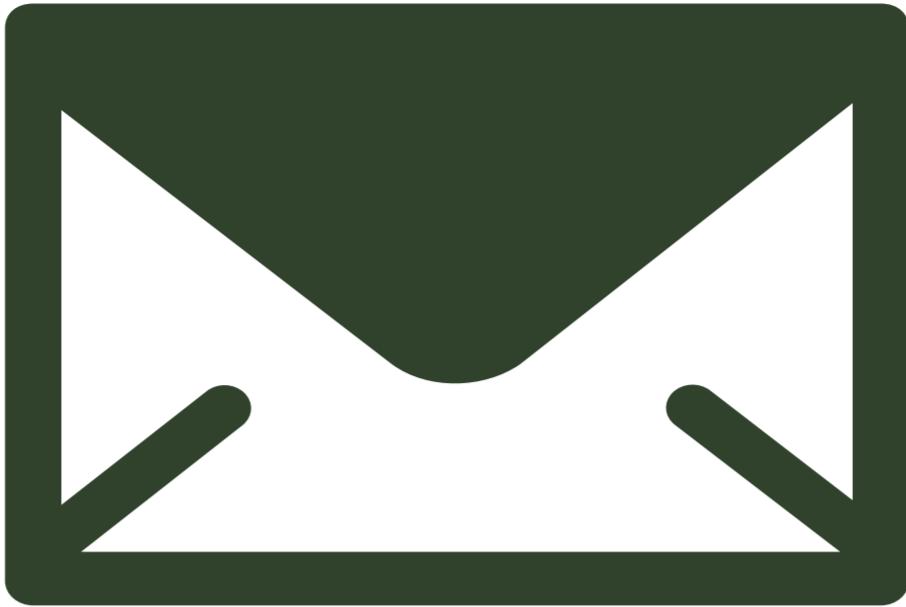


Pricing your craft is an area where you should be spending a good amount of time and research on. For a lot of people their pricing research goes as far as getting on the web, or often Etsy, and searching for the product they sell then choosing the price that they think would be a good fit.

A lot of other folks online will tell you to start off on the lower end when it comes to pricing, and while I agree with that to an extent, my philosophy is for you to consider each of these areas listed below first then adjust to the higher range.

If you're new to your craft and your work isn't yet up to par then that's the exception to pricing on the lower end (after you've evaluated the pricing areas below) and raising your price once your skill increases. By that time you should be venturing away from Etsy (or even keeping your Etsy shop, like myself) and building your own eCommerce website.

You should always start your pricing research offline, thinking about what your monthly costs and goals are. I'm going to take you through 7 areas of consideration when it comes to pricing your craft.



## 1. Bills

This will be different for everyone. It's an obvious element to pricing what you sell but so many beginner makers skip over this for some reason or another. This will include things like your rent/mortgage, car, phone, groceries, hospital, debt, loans, etc.

### Action Step:

Write down all your weekly, monthly, yearly bills. Don't worry about operating costs or overhead yet, that will come later. Next to each bill write out the amount you have to pay.

For things like variable costs, things that fluctuate depending on how often or how much you use (like your grocery bill), just write out the average amount. Don't forget about those monthly magazine or app subscriptions (that you could probably do away with).



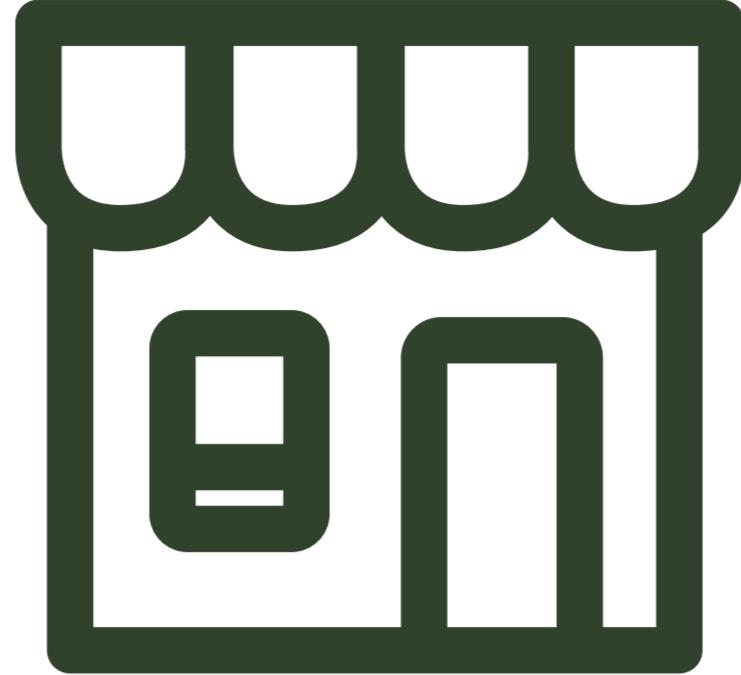
## 2. Operating Costs

These are costs associated with making your product. Materials, machinery/equipment, packaging, shipping materials, etc. Let's say you're not charging a percentage for the computer you use to run your business and one day your computer stops working, you're going to have to pull that money from another area (i.e. profits, material costs, rent, your labor, etc.) to make up for your operations cost that you haven't been factoring in.

### Action Step:

Write down everything you use to create your product. Apply the cost to each of them.

Also, account for the times of year. For example, you're going to be buying more materials around the holiday season than during the summer. So take a look at your expenses from the years before to determine this (you have been tracking all that, right?).



### 3. Overhead

Your overhead makes up for costs that you would still need to pay even if you shut down your operations temporarily. Some of these expenses include your studio rent, employee payroll, phone bill, marketing costs, etc.

**Pro-Tip:** For those bigger machinery investments, the best way to factor those into your pricing is to take the total cost you paid and divide that by the number of years you truly think it will serve you and your business.

Let's say you're investing in a \$2,000 Mac Book and they're known to last up to 10 years. Divide  $\$2,000 / 10 = \$200$ . Then divide that by 12 =  $\$16-\$17$ . So account for \$17 a month in your pricing for your Mac Book which can then be dispersed throughout the number of products you can make a month.

#### Action Step:

Write down all your overhead costs along with the amount you have to pay each month.



## 4. Cost of Goods Sold (COGs)

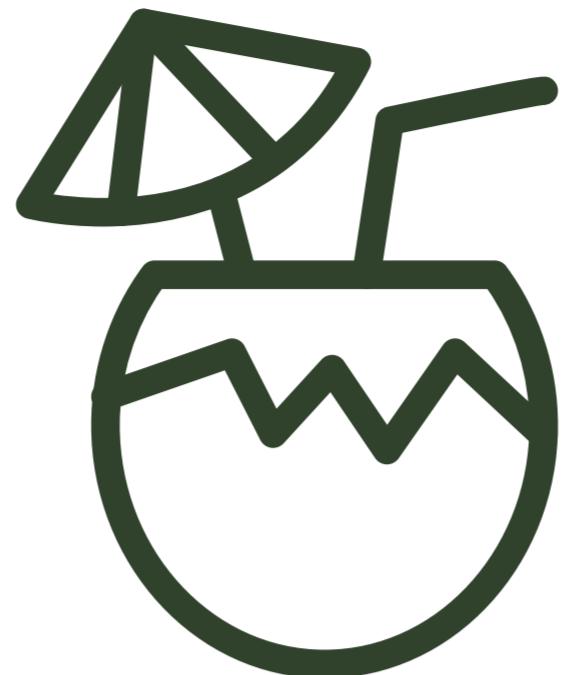
Although this would go under your operating costs, I like to keep it separate since it's such a significant element to figuring out your price. This is often the only element folks seem to think about, probably because it's directly related to selling your craft.

It's always, always best to source your materials at wholesale costs. But, there are cases where that's just not feasible, especially with a lot of one-of-a-kind designers who don't want to keep using the same bead, yarn, color etc.

Cost of goods sold accounts for the yarn you use to make a hat but not the needle you use to make it with. It accounts for the wood you use to make a shelf but not the wood glue. Whatever the customer physically receives is considered the cost of goods sold. The glue and sewing needles go under operating costs.

### Action Step:

Go through each different product you make and tally up the COGs for that item.



## 5. Hopes + Dreams

Oh yea. This is the fun stuff. This is where you get to figure out how you want to live.

Do you want to give yourself a raise every 6 months? Want to move into a bigger home some day? Want to take a week long road trip and sleep in a different Airbnb each night? How about the way you eat? Do you want to shop at wholefoods or Walmart?

These are your hopes and dreams. They all have a cost associated with them. You need to be accounting for these things.

This element could also be considered your profit but I notice people tend to shy away from the profit part of pricing so by acknowledging your profit as your "hopes and dreams" makes it more fun to incorporate into your pricing.

## Action Step:

Answer these questions and come up with others that fit your desired goals and come up with a cost for each.

- Where do you want to shop for groceries?
- Where do you want to live?
- How often do you want to take a vacation? To go shopping?
- What type of car do you want to drive?
- What other creature comforts do you want to have in life?



## 6. Your Labor

First of all, **labor is not profit**. These are two completely separate things. When people get to this step they think about minimum wage for some reason. "Oh, I'll pay myself \$10/hr." This is an issue for me. You are building your own business with your own two hands. For most, you do everything in your business. **Pay yourself generously.**

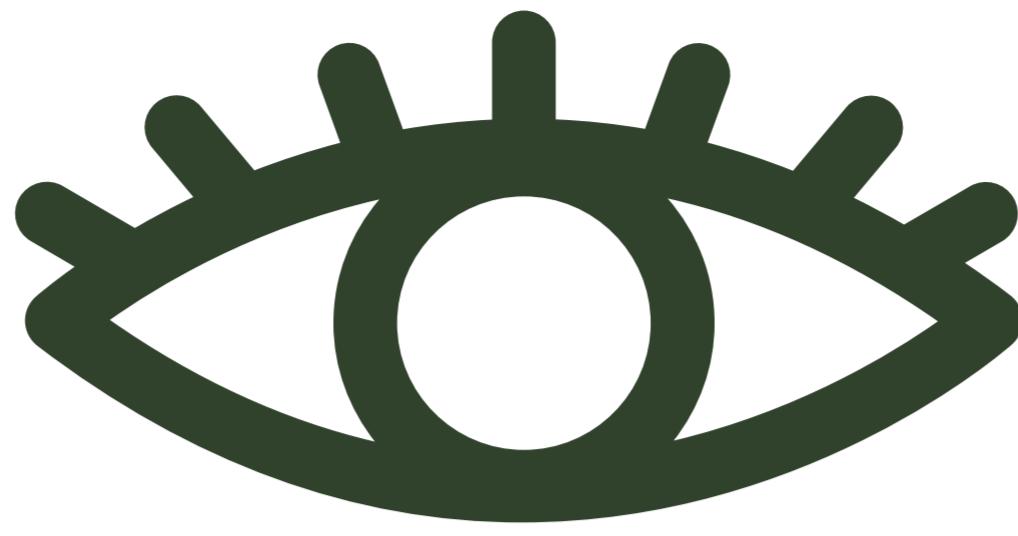
How much does a woodworker make in your area? Probably around \$17-\$20/hr. However, think about all the other things you do in your business. You do way more than just your craft. Consider everything you do; customer service, packaging & shipping, accounting, administration, marketing, etc., etc.

Depending on where you live and your cost of living, consider \$60/hr + 8 hours a day for 5 days a week = \$124,800/year. Give or take depending on how much time you spend on your business a week. This is a really great starting point.

Just because you "enjoy what you do" and if there was no need for a monetary system you'd do it for free doesn't mean you have to struggle while following your dreams. I mean, consider your ultimate goals. Do you really want to scrape by your entire creative career? **If you value your work and your time so will your customers.**

### Action Step:

Tally up all the costs from steps 1-5.



## 7. Perceived Value

Perceived value is the difference between the amount your customers are willing to pay for your items and the price of their alternative.

Their decisions will be based on things like the service you provide, originality, design, quality of craftsmanship, packaging, etc. At this point you then need to step back and determine if you can raise the price based on perceived value.

### Action Step:

Now it's time to go into market research. Go to Etsy, Amazon, Google, etc. and shop for your product and similar products. How do your products stand up to your competition? Is your photography better? Is your design in demand? Can you picture celebrities wearing/using your product? Really gauge your products against the market and make an executive decision.

If you find that the price is just too high and you need to decrease the price of your item then see if you can cut costs by using lesser expensive materials without compromising the quality or design of your work.



## Time To Do The Math

I'm going to go through each step with a whole, round number so it's easier to follow. I'm also going to go by monthly costs.

### **1. You'r bills:**

Let's say your bills are around \$2,000 a month.

### **2. Your operating costs:**

Let's say your operating costs are \$200.

### **3. Your overhead:**

Let's say your overheads costs are \$500.

### **4. Your COGs:**

Let's say your COGs are \$200.

### **5. Your hopes + dreams:**

Let's say you came up with a number of \$6,000 a month to live your dream life.

## 6. Your labor:

(adding up everything in steps 1-5)

You need \$2,900 just to make ends meet.

You need \$8,900 to live the life of your dreams.

A couple things to consider:

1. How many products do you need to sell a month to hit your revenue goal?
2. How many products can you physically make in a month.

If you need to sell, say, 60 products a month, can you actually make that many plus some so you're not out of inventory by the end of the month?

If you can't make 60 products a month then you have 2 options. 1. hire help and 2. raise your prices.

You also need to have room for markup for wholesale. Everything I've talked about here is just to get you to your break even point, yes, profit included. Take your break-even number and times it by 2 to 2.5 to come up with your full retail price.

That might seem like a lot but it sets you up for success when you start doing wholesale. You need to be able to make profit when doing wholesale. That's a whole other article in itself so I'll tackle that at a later time.

## 7. Your perceived value:

This is going to depend. Let's say you make wooden shelves. It costs you \$50 to make one + all your other costs divided by the number of wooden shelves you can make in a month comes out to \$200 + your 2.5 markup so you're retailing for \$500.

If you're using the best wood for shelving that will last generations and your craftsmanship is top notch, on top of stellar customer service, great photography, etc. then you can up your price to \$600 - \$700 based on perceived value.

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There's a lot that goes into pricing your craft for success. You have to really roll up your sleeves, dive deep into your business, market and lifestyle to come up with the perfect price you need to create the life you want.

It goes way beyond the labor, materials, overhead, etc. I hope this guide has been extremely helpful for you and I have much more I want to write about pricing so keep checking back or join the Maker Mob to get new posts sent straight to your inbox.

What have you found to be successful for pricing your products? Leave me a comment over on the blog, I'd love to hear about it.

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