

The Price of Your Work: *Figuring Your Cost, Wholesale, and Retail Prices*

By Mary Ellin D'Agostino

Are you selling your metal clay creations? Just thinking about it? Are you worried that you are charging too much or too little? Does trying to figure out how much to charge for your work keep you up at night? If you want to come up with a reliable and rational method for pricing your work, read on.

There are three parts to establishing what to charge for your work: You must determine how much a piece costs you to make, what would be a reasonable wholesale price for it, and how much to charge for it at retail. If you are just beginning to sell your work, chances are that you are selling directly to retail customers (your friends, family, and acquaintances). You want to give them a good deal, and you may not see a need to establish a wholesale price. You just want to recoup the cost of the pieces so you can buy more metal clay and supplies. There is nothing wrong with this approach, as long as you don't mind losing money!

Establishing Cost

When most of us first start selling our work, because we do not know how much the pieces cost us to make, *we actually end up paying our customers to take our work off our hands!* We just look at the end product, weigh it and say, "The silver clay cost me about \$1.50 per gram and it weighs 10 grams, so it cost me \$15 plus any stones, chains, or findings I added to it." This method leaves out several important factors in what the work actually cost to make, i.e., the hidden costs of the materials (including shipping, tax, and waste), overhead, and time.

Materials:

The real cost of your materials is more than just the price you paid per gram, per stone, or per finding. You also paid shipping charges and sales tax for those materials. If you calculate the shipping cost per dollar value of a few orders, you will get an idea of how much it costs you to obtain your materials (probably between 1% and 10% of the item cost). Add in any taxes you paid when purchasing, unless you keep really good track and account for that when you do your taxes.

Estimate of how much metal clay waste you have. How

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much silver are you washing off your hands and sending down the drain? Have you ever considered those little silver flakes on the floor that you sweep up and toss? How much clay ends up on the bottom of your water jar that you never get around to recovering? I usually estimate waste at a generous 10%, which is an easy-to-figure number. Also consider what the clay cost per gram when you purchased it, and how much will it cost to replace. With silver prices jumping up and down, you need to build an inflation factor into your clay cost. Currently, silver is approximately \$18 per ounce. I figure that if I price it at \$20 per ounce, that 10% should cover inflation, but I do need to keep an eye on the price of silver and adjust my figures if the market changes. Copper and bronze clays are a little easier to figure because the prices are more stable, but they tend to have a higher waste factor than silver since it usually isn't a good idea to re-use the dust from these clays.

Factoring in these hidden costs, my cost per gram for the low-fire silver clay that I purchased recently at retail (\$80.40 for 50g) becomes \$2.00:

\$1.61 per gram
\$0.03 (shipping at 2% per dollar)
+ \$0.16 (10% waste)
+ \$0.16 (10% inflation)
= \$1.96 per gram of clay

I round this to \$2.00 for easy figuring.

Overhead:

There are more costs to making your metal clay pieces than just the materials. You have to pay for tools, supplies, and firing. If you are serious about selling as a business, there are many additional costs to include. [For more information about how to calculate overhead, visit our website: www.metalclayartistmag.com/resources.] But if you are just starting out, you only need to determine an annual budget for tools and supplies and to estimate how much it costs you to fire your pieces. For example, I might budget \$200 per year for small tools and supplies that get used up, like sandpaper and plastic wrap. I would allocate the cost of my kiln over a 5-year period (\$200 per year for a \$1,000 kiln). I would look at my electricity bill to establish what the kiln costs per hour to run (\$0.381 per Kwh on my California electric bill - eek!). Once I have these estimates, I can figure out an hourly rate for the overhead

based on a 2,000-hour work year. While most of us are not making metal clay pieces for sale full time, this approach is an easy way to establish a fair hourly overhead rate. You should substitute your own realistic figures. Using the numbers above, I use the following equation to establish that the cost of my tools and supplies is about 20¢ per hour:

$$(\$200 + \$200) \div 2,000 = \$0.20$$

Of course, I also need to estimate how long each piece took to make. For a piece that took 4 hours (2 hours of labor plus 2 hours of firing), the cost would be 80¢ for tools plus 76¢ for firing ($\$0.381 \times 2$ hours) – a total overhead cost of \$1.56.

If we add these overhead costs to the real cost of the clay and the piece weighs 10 grams, so far the cost to make it adds up to \$21.56:

$$\$20.00 \text{ clay} + \$1.56 \text{ overhead} = \$21.56$$

If I were selling the piece based on the cost of the clay alone - \$16.10 (at the \$1.61/g price) - and didn't add in these other costs, I would be paying my customer \$5.46 to take the piece off my hands! And that doesn't even include my time yet.

And if I am serious about making this a business, I need to add in all the other overhead expenses I have to run my business, including rent/mortgage, utilities, office supplies and equipment, shipping to customers, advertising, photography, administrative time, cost of shows and competitions, time spent preparing and doing shows, travel, entertainment, loss & shortages, insurance and professional fees.

Time:

It is often said that time is money. A more accurate statement might be that your labor is worth something, and we usually calculate the value of labor per unit of time. The labor cost for your piece is the hourly rate you pay yourself multiplied by the amount of time you spent making the piece. For the piece in our example, I would charge for at least 2 hours of labor; I personally do not charge for labor for firing time. I have to decide what my hourly wage is. If I am going to pay myself the current California Minimum Wage (\$8.00/hour), I can't just use \$8.00 as the figure because I need to include taxes. When you

start out, you may not have to pay employment taxes, but later on self-employment taxes will take 35-40% of your income. This is a higher tax rate than when you are an employee, because the employer picks up a lot of the cost (half of your social security and all of your disability insurance premiums). [Editor's note: These calculations are based on California laws, and readers should check with their own local tax authorities.] So using the 40% figure for taxes, my hourly rate for labor becomes \$11.20. For easy calculation, I would round up to \$12.00, which would make the 2 hour labor charge for that 4-hour, 10 gram piece \$24.00.

So, just to make minimum wage and cover the cost of my materials and expenses, I would need to charge \$45.56 for the piece:

$$\$20.00 \text{ clay} + \$1.56 \text{ overhead} + \$24.00 \text{ labor} = \$45.56$$

Calculating a Wholesale Price

To calculate the price you are willing to accept for a piece, you need to add a business *profit* to the *cost*. If you do not add profit, you will only break even, at best. Set your profit margin at a level that makes you comfortable. Typically, businesses that sell their inventory for less than 1.5 times their cost do not remain in business. So an easy way to figure a wholesale price is to multiply the item's cost by at least 1.5 or 2. A different method for figuring profit is to add a margin of profit into each expense category: materials, labor, and overhead. If you don't put enough profit into all of these categories, what will you do when you finally notice that your costs have increased? Most of us don't re-estimate our labor and overhead costs very frequently, but they should be reviewed at least once a year because costs on just about everything have been going up. Tax time is ideal, since you have to figure your costs to do your taxes anyway.

Establishing a Retail Price

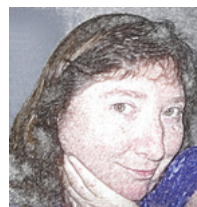
Once you have established costs and have added some level of profit to arrive at a wholesale price, you are ready to figure out your retail price. It is common for businesses to double their wholesale prices to determine their retail prices. Some businesses multiply the wholesale price by 2.5 or even 3 times when pricing their products for retail sale. This markup covers the cost of selling the goods at retail,

including paying for the retail space and the sales people. Running a brick-and-mortar retail establishment is costly.

Having a clear picture of your actual costs will give you a backbone when customers start asking for discounts. When you are selling direct to consumers at a show, it is tempting to sell at close to the wholesale price, but you need to include the cost of the show in your calculations: booth space, labor (preparation, setup, sales, takedown, putting items away, inventory, re-ordering), travel, meals, loss, etc.). The 50% margin between wholesale and retail should cover your costs for the show. If the show cost you \$1,000 to attend, you need to sell \$2,000 worth of merchandise at full retail just make the profit you would make if you sold those items at wholesale.

If you are selling direct only and never intend to sell through galleries, boutiques or other venues, you may decide that you don't need to charge much more than your wholesale price. But keep in mind that if you change your mind, you will have to suddenly double your prices and your customers will think that is unreasonable. If you have items in galleries or shops AND also sell direct (at shows, online or in person), you *must* support your retail partners by selling your work at full retail prices. If you discount your work when you retail, your retailers will be unhappy and will drop you.

If your pieces cannot command the prices you come up with, you need to figure out how to make it work. Spend less time on pieces, use less expensive components, or make pieces that can command a higher profit. Elaine Luther's blog has some great suggestions. <http://creative-texturetools.com/news/2007/10/25/production-work-for-sales-success/>



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