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### Pricing Your Handmade Jewelry Part 1

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Pricing your work is probably one of the most difficult aspects of marketing. Price your work too high and you limit sales, possibly pricing yourself right out of business. Price your work to low and you'll give your labor away, as well as your profit.

Most beginning jewelry designers will price their work too low. An often used excuse for this is "I do it because I love it." That's fine if your intention is to just make the occasional piece. However, if you have even the tiniest hope of someday making a living (or just some extra spending money) selling your jewelry then you should start now. Let's be honest, why else would you be reading this, right.

This is a competitive business, built on customer loyalty and word of mouth. If you start out giving your work away you will not only give the illusion that your work isn't worthy of a decent price but any customer base you build will suddenly turn up their noses when you see the light and raise your prices to fit what they are truly worth. Does that mean you should start charging premium prices right out of the gate? No, probably not, if you are a new jewelry designer there will be the inevitable learning curve, the time when you are perfecting your techniques. Due to this learning curve, even if the design is the same, the quality of early pieces will be dramatically different

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Current Price: **\$1.99**



from those of later pieces. We're all constantly improving and perfecting our techniques. Just think of your self as a jewelry making apprentice. As your skill improves so should your hourly rate. This allows for small price increases over time that can easily be explained as inflationary.

So how should you price your goods?

## Step 1: Calculate Your COGS (Cost of Goods Sold)

What is cost of goods sold? Stated simply it is all the cost incurred in getting your product ready for market. I said stated simply! Unfortunately, it's not quite that simple. In practice, as an accounting convention, the COGS is all the **direct** expenses incurred in producing a particular good for sale, including the actual cost of materials and labor to produce the product. It **does not** include indirect expense such as rent, utilities, advertising, or labor not directly related to the production or assembly of the product. **DO NOT include the cost of YOUR labor here.** We'll do that later. You **SHOULD** include labor paid to other individuals to assemble the product.

It is important to know what a direct expense is and what an indirect expense is. Why? You will need to know what your COGS are in order to calculate your gross profit for tax purposes. You can then deduct indirect expenses such as utilities, advertising etc. to determine your net profit. While at first glance it would seem easier to just lump it all together, it will be much easier come tax time if you have been keeping these expenses separate all along, as they are handled differently for tax purposes.

Even if you are not the one doing your taxes, most professional preparers charge an hourly rate. If they have to go through and weed out which expense is which you'll pay them more than you need to. If you start out keeping good records and make it a habit you'll never have to worry about it coming back to bite you in the rear later on.

You will also need to have this information if you are ever called upon to produce an income statement. Why would you ever need to produce an income statement? Anytime you wish to use your self employment income to determine eligibility for a loan, whether that be a business, personal, or home improvement loan, you will be required to produce income statements from previous years and a projected statement for the current year.

Now, this is where it may get a little confusing. You may recall that earlier I told you not to include the cost of your own labor. While technically this is a direct expense (assuming you are still assembling the product yourself), if you are a sole proprietorship the IRS considers all profits as income so any labor paid to yourself is not a deductible expense. However, if you are incorporated you would handle your salary just as you would an employee.



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## Step 2: Calculate Annual Overhead or Operational Cost

Operational Cost are all cost incurred just to maintain existence. Operational cost would include, rent on office space, utilities, insurance, advertising, and wages of persons not directly attributed to production of the product. For example, if you are hiring someone to handle shipping of your goods that is an operational cost. I'm going to be terribly broad with my definition of operational cost since trying to explain the difference between operational cost and incremental cost could take a book in itself. For our purposes it's not necessary to fully understand the difference. If it's a related business expense and it doesn't fall into the direct category you can put it here. Don't get crazy though. Remember, we're doing this to determine what you should be pricing your jewelry at, not what you'll be paying in taxes.

Once you have your annual operational cost you can distribute this cost to an individual product. While there are many ways to distribute operational cost the easiest for our purposes is to divide it by the number of hours needed that year to assemble all items, and then adding that to the cost of a particular product according to the number of hours it took to assemble it. I know that's a mouthful so we'll break that down. For example, say your operational cost for the year is \$6000 and the total number of hours you expect to need to produce all your jewelry is 2080. Let's say you are trying to cost a pair of earrings that took you 15 minutes to make (0.25 hours). Here is your breakdown:

$\$6000/2080 \text{ Hours} = \$2.89$  is your overhead cost per hour.

$0.25 \text{ hours} * \$2.89 = \$0.72$

So you would add \$0.72 cents to the cost of your earrings as overhead.

## Step 3: Calculate the Cost of Labor

Assuming that you are not already paying someone for assembling your products (in which case it would have been added in step 1) this is where you would put the cost of labor. **This is not where you put what you would like to make per hour.** We'll handle that later. This is what you would expect to pay someone to assemble your jewelry for you. Why would you pay someone to assemble jewelry you're selling? Depending on how large you'd like to be the day may come when you've grown so large that you can't possibly complete all orders yourself or when you no longer wish to produce them yourself. For most of us the fun part of the whole process is the design phase. There is nothing that can kill the fun for you more then having to replicate the same design 600 times over. That's why you hire someone. Granted, many of you may never plan on getting to that point, but just in case do it my way. Trust me.

Let's use our previous example and add to it. Let's say our COGS for the earrings are .50 cents, and we expect to pay someone \$8.00 an hour to produce them. So our earrings so far are costing us:

COGS	\$0.50
Plus Overhead	\$0.72
Wages (\$8.00*0.25 hours)	\$2.00
-----	
Break Even Point	\$3.22

Now you have your break even point. What is a break even point? Just what it sounds like, this is the point where you've made neither a loss nor a gain. If you sell your earrings for \$3.22 you've broken even. See now why I asked you to include a

base wage? Your time is worth something and should be considered when pricing a piece. Even though you may wish to make more than you would pay someone to produce the piece for you, determining what you would have to pay someone is a good starting point for putting a value on your time.

Of course no one wants to just break even but if you don't know what that point is you'll never know if you are losing money or making a profit. I've seen people go on for years operating at a loss, all the while thinking they are doing well until it all starts crashing down around their ears and they wonder what went wrong. You must know your break even point on each and every product you produce.



#### Step 4: Determining Your Profit

This is where you would decide what you want to be able to make off a piece. A lot of factors go into this decision including your customer base, quality of materials, market venue, and your competition. This is where a little trial and error is necessary. First, determine who your customer is. You probably should have done this before you even started thinking about selling your first piece of jewelry but if you haven't done so already do it now. Sit down with a piece of paper and write down some descriptive characteristics about your target customer. What is their salary range? Age? Gender? Ethnic background? Style? Are they Conservative? A Romantic? Once you know whom your customer is you can start determining what price range you're aiming at. For example, you'd probably have a hard time convincing a middle class mother of 2 that she should be spending over \$25.00 on a pair of earrings no matter how beautiful and unique unless it's for a special occasion. On the other hand, an executive of a fortune 500 company with a 6 figure income probably wouldn't look twice at a pair of earrings priced below \$25.00.

A good method to use when pricing your jewelry is to ask a few "honest" friends or family members (provided they are also within your target customer group) what they would pay for your jewelry. I say honest because most people will be afraid to give you an honest assessment for fear of hurting your feelings. You want the people that won't hesitate to tell you that your hips look big in that bright blue dress, or that purple just isn't your color. You want the brutally honest!

A standard markup is cost x 2 (other wise know as keystone). However, jewelry is usually priced higher than most goods so cost times 3, 4, 5, 6 even 10 is not unreasonable. For example, I regularly produce fashion earrings for local gift & consignment shops. My break even points for those pieces are around .90 cents each but they regularly sell for \$5.00-\$10.00 each depending on the shop. You could stop here and just take your cost and multiply it by a certain number to come up with your selling price. However, that still may not cover all the cost involved in selling your jewelry, or give you the profit you desire. There is a more precise method to determine what your selling price should be. This leads to the final step in pricing your jewelry, cost to market.

**We'll discuss calculating your Cost to Market in [Part 2](#) .**

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Please read [Part One](#) first.



#### Step 5: Calculate Your Cost to Market

If you're selling in just one venue you might be able to add your cost to market into overhead. However, if you are like most jewelry makers you're selling in several venues, with each venue charging a different amount and often that being determined by the final selling cost. For example, if you are selling your jewelry in a gift or consignment shop most have a 60/40 split with your share being 60%. You'll need to add this cost to your break even point and consider it when determining the price for your jewelry.

I'll illustrate with a few examples:

Let's use the break even point of \$3.22 from our earring example used earlier. Let's also assume that you are still assembling all your jewelry yourself, and you'd like to make \$18.00 an hour. You've already added \$8.00 so you need to add an additional hourly rate of \$10.00. If you recall from our example it took us 15 minutes (0.25 hours) to make the earrings so we'd add an additional \$2.50 ( $\$10.00 \times 0.25$ ) to our break even of \$3.22 making the amount we'd like to walk away with, after paying selling fees, of \$5.72 ( $\$3.22 + \$2.50$ ).

**Example 1:**

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Prix courant: **\$1.99**

***Selling in a gift ship with a 60/40 split:***

To determine what your selling price needs to be in order for you to walk away with \$5.72 after fees you need to divide \$5.72 by 60 and then multiply by 100 to get your selling price of \$9.53.

$\$5.72/60=\$0.0953$   
 $\$0.0953*100=\$9.53$  Selling Price

For those of you that aren't math savvy it may not be immediately apparent to you how I came up with that figure, so I'll try to explain. The total selling price is 100% and your split is 60% which is why you divided what you want to walk away with by 60. If the split was 70/30 with 70 being your portion you would have divided the \$5.72 by 70 instead. However you still would have multiplied by 100 to come up with the total selling price. Hopefully it's making a bit more sense to you now. Percentages are a difficult concept for a lot of people so if it still isn't making sense don't fret too much. As long as you plug the right numbers in, the formula will work for you even if you don't completely understand how. You can always check your work with a calculator to see if the number you came up with gives you the amount you need. i.e. 60% of \$9.53 = \$5.72.

**Example 2:*****Selling on eBay:***

Fees are given as an example only and may not reflect actual fees being charged by eBay at this time.

Listing Fee:	\$0.35
Gallery Fee:	\$0.35
Desired Amount after Fees:	\$5.72

---

Total: \$6.42

---

Final Value Fee: 5.25%  
 $(\$6.42/94.75)*100= \$6.78$  Selling Price

Notice that any fixed fees (fees that don't depend on the final selling price) are added to your desired amount before calculating the selling price. Also, some of you may be questioning where we got the 94.75. Think about the example from the gift shop earlier. If you recall our portion of the split was 60%. With eBay our portion is 94.75% the other 5.25% goes to eBay as a final value fee.

This example assumes that there are no additional expenses involved in collecting the funds. However, if you were paid using PayPal (or a merchant account) you would also have to add those additional fees into the mix.

Let's expand on our earlier example.

***Selling on eBay, PayPal as Payment method:***

EBay Listing Fee:	\$0.35
EBay Gallery Fee:	\$0.35
PayPal Transaction Fee:	\$0.30
Desired Amount after Fees:	\$5.72

---

Total: \$6.72

---

EBay Final Value Fee: 5.25%  
 PayPal Fee: 2.90%



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Prix courant: **\$1.19**

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Prix courant: **1,99 \$US**

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Prix courant: **7,99 \$US**

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[PURPLE JEWELRY WIRE KIT- Beaded/Beading/Glass Beads/Book](#)

Prix courant: **9,99 \$US**

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Total Percentage Fees: 8.15%

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$(6.72/91.85)*100=\$7.32$  Selling Price

### Example 3:

#### ***Selling directly to the consumer:***

In this case there may not be any additional cost involved. For example, if you sold the earrings to a member of your church and they handed you cash then your selling price would be the same as your desired amount after fees of \$5.72. However, if you are selling at a craft show there may be booth fees. If you are also accepting credit card payments there will be merchant fees. In the case of booth fees, those can't be attributed to any one transaction. You'll have to spread the fee out over the number of items you expect to sell using a method similar to what we used to attribute overhead cost. If this is your first season you may not have a clue how many pieces you are likely to sell. In that case, you may want to lump this into your annual operational cost and spread it among all your pieces for the year. However, once you have a few shows under your belt you will have a better grasp for what you can expect. Let's say that the booth fee for the show is \$25.00 and you expect to sell 100 pieces during the show. Let's also assume that your merchant fees for accepting credit cards are \$0.20 cents per transaction and 2.2% of the charged amount. Let's stick with our earrings from our prior examples.

Booth Fee (\$25/100):	\$0.25
Credit Card Transaction Fee:	\$0.20
Desired Amount after Fees:	\$5.72
<hr/>	
Total	\$6.17

---

Credit Card Fee: 2.2%

$(6.17/97.8)*100=\$6.31$  Selling Price

Hopefully the above examples gave you a base for determining how to precisely price your jewelry based on your desired profit model. Be reasonable when determining your desired profit model. We'd all like to make \$100, \$1000 even \$100,000 an hour but that doesn't mean we'll get it. Once you've determined a selling price for each selling venue, go back and determine how likely you are to sell at that price? Does the price seem too high? Too Low? You may have to make adjustments. Let's say that we've determined that our earrings are very likely to sell at \$5.00-\$7.00 in all our venues. Our gift shop selling price and our eBay selling price fall outside that range. Are you willing to adjust your profit model for those venues? Perhaps a profit model with an hourly rate of \$15 an hour would be more appropriate for those venues. If that rate is just not acceptable for you, then you may need to eliminate that venue or determine if there is a way to reduce your fees. Perhaps you could negotiate a 65/35 split with the gift shop owner instead of the traditional 60/40 split.

In conclusion, you can precisely price your jewelry based on a profit model of your choosing. To determine the selling price of your handmade jewelry you must first determine your cost of good sold (COGS). Then determine your annual operational cost and distribute it to your product. You must then calculate your cost of labor (if it wasn't already added to the COGS) to come up with your break even point. Once you have a break even point you can then assign a profit model and add cost to market fees to determine your final selling price. Once you've calculated your selling price based on the desired profit model you can make adjustments up or down depending on the venue and the likelihood of achieving that price.

We hope you enjoyed our guide on pricing your handmade jewelry for resell.



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