



*lucky break*  
CONSULTING

THE LUCKY  
GIRL'S GUIDE  
to  
**PRODUCT  
PRICING**

**Price with confidence,  
boost your bank account,  
and build your brand!**

## HELLO THERE!

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If you're reading this, then chances are good that somewhere along your entrepreneurial journey you've been overwhelmed, exhausted or frustrated. Hell, you might have been all three! And you've probably flown by the seat of your pants for much of that time, crossing your fingers and hoping that you're making the right decisions to grow your passion-fueled business into a sustainable brand. *I've been there myself.*

My name is Lela Barker, and I foster emerging creative brands by infusing their passion with the critical thinking and tools that make [brand development](#), [product pricing](#), and [wholesale strategy](#) easier and more successful. I've spent 13+ years bootstrapping an apothecary brand into a profit powerhouse sold through 1300 wholesale accounts, and I've certainly learned a thing or two about the mechanics and psychology of product pricing along the way.

Today I work with product designers and makers on the move: jewelers, stationers, ceramicists, apparel and accessory designers, apothecary brands, and some of the best damn gourmet food companies on the planet. Through years of work in and amongst the maker community, I've realized how much commonality exists in our struggles: most of us are putting in more hours than we'd like, flying a bit blind when it comes to strategy, and *virtually all of us are grasping at straws when it comes to product pricing*. The pricing struggle is very real, and it plagues virtually every brand with whom I've worked.



**How did you arrive at your pricing strategy?**

**Was it based on advice found on an internet forum?**

**Perhaps you added up (what you thought were) all of your costs and then multiplied by 2 or 3 or 4?**

**Did you look around at similar brands in the marketplace and follow their lead?**

Each of these strategies is the equivalent of playing with fire. Why? Because pricing is complex, nuanced and brand-specific. Each and every day, I see the most amazing creative brands falling into these three pricing traps...

### **1: FOLLOWING A COMPETITOR'S LEAD.**

Following the lead of your competition is a recipe for disaster. Their numbers aren't your numbers. Their business model isn't identical. Their profit needs are likely different, and you might not be serving as similar an audience as imagined. Besides, who's to say that their pricing strategy is serving them well? For all we know, your competition lay in bed last night fretting about their bank account and wrestling with how they'll explain the need for an imminent price hike to their customers.

### **2: LISTENING TO PEOPLE ON THE INTERNET.**

Determining your pricing strategy is one of the most important decisions you'll ever make in business, and it deserves careful forethought. Blindly following the advice of someone who doesn't understand the intricacies of your empire isn't just lazy... *it's fantastically ineffective.*

With all due respect, the voices I hear in the forums of the world wide web touting their business prowess aren't always emanating from the mouths of people who have a solid history of experience. When very successful makers are generous with their wisdom, they're only able to share what worked for *their unique brand*. Unless they've coached other businesses all along the spectrum or have an MBA under their belt, then the advice is limited to personal experience... and that experience may not hold a hell of a lot of relevance for you.

There's ultimately no shortcut to doing the math needed to understand production costs and the market analysis needed to develop a strategic plan that communicates your brand value to the target audience.

**“ Pricing is a strategic marketing decision, and deserves just as much attention as- if not more than- packaging, distribution, advertising and promotion. ”**

RONALD J. BAKER

### **3: USING TIRED, CLICHÉ PRICING FORMULAS.**

Pricing strategies are far too nuanced and complex to be successfully served by simple calculations. *Multiply by this. Add this. Blah blah blah.* That approach doesn't work and, more often than not, it leaves money on the table. Unless you're selling non-branded commodity products, then pricing by straight formula is naïve and dangerous. Do you need to know your costs? *Absolutely.* Do they form the alpha and omega of pricing? *Absolutely not.*



## I FIRMLY BELIEVE THAT...

- You needn't fly blind when it comes to defining your company's pricing strategy.
- Pricing low will sabotage your efforts to gain market traction and build a customer base.
- Entrepreneurs who make beautiful things and run ethical businesses deserve to reap handsome financial rewards in honor of their hard work.

Can I get an “amen?” I'm thrilled that you've discovered this guide, and I hope it goes a long way towards keeping your business firmly in the black. Before we dive into the mechanics of modern pricing strategy, I have a little something that I'd like to get off my chest.

If you need a pep talk on profitability, then I invite you to roll up your sleeves and turn the page!

Wishing you every success,

Lela Barker  
C.E.O. (Chief Empire-Building Officer) at Lucky Break Consulting

## PROFIT ISN'T A FOUR-LETTER WORD

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Through my work with hundreds of makers and product designers, I've recognized how many of us are painfully squeamish about making a profit, despite the fact that we're at the helm of a business. What's that all about? I have more than a few theories, but the psychology is ultimately moot. Here's the bottom line: You work damn hard, and you deserve to make good money. The end.

I firmly believe that 21st-century entrepreneurs have a myriad of responsibilities that don't begin and end with the pursuit of profit: sharing our gifts with the world, building a positive culture within our companies, and contributing time, money, and passion to causes we hold dear. Each of these is important, but businesses- at their very core- are endeavors designed to deliver profits. All of those other responsibilities revolve around the "sun" of profitability. That's the center of the entrepreneurial universe!

You needn't explain nor justify a desire to make money. And you certainly shouldn't let others define how much is "enough" for you to earn. The discomfort surrounding profitability is epidemic in some maker circles, and it's time to put it to bed. I created a little something for you on the next page that I hope you'll print and post prominently in your workspace, in case you ever feel like you need "permission" to make money.

One of the many beauties of entrepreneurship is that we sit in front of a panel of virtual levers which we control at will: our schedules, the design of our businesses, and (perhaps most importantly) our earning potential. There's no "right" or "wrong" when it comes to earnings and we each define success in ways that are personally meaningful. Even

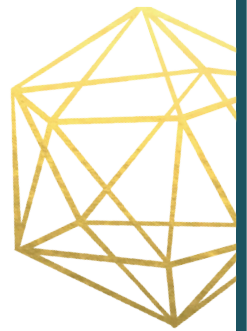
(and perhaps *especially*) those who are fueled by a desire to better the world are entitled to robust profits. You bust your tail to build a business >> that effort is rewarded in dollars >> you have the opportunity to use those resources as a tool to help build the kind of world you envision.

Earlier I mentioned the epidemic of squeamishness surrounding the desire for profit. The twin entrepreneurial epidemic? A chronic undervaluing of our work. And I'm on a mission to put an end to that within the maker community! Now that we've established that profit isn't a 4-letter word let's dive into strategies for creating plenty of it.





I WORK  
**DAMN HARD,**  
AND I DESERVE  
TO MAKE  
**GOOD MONEY!**



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CONSULTING



I am a devoted, dedicated, passionate champion of the independent business owner and entrepreneur.

Because we risk while others trade all for seeming safety...

Because we invest while others squander...

Because we innovate while others are complacent...

Because we work twice the hours and with ten times the intensity than the overwhelming majority who prefer 9-to-5...

Because we take on infinitely more responsibility...

Because we get bruised and bloodied and knocked down and get back in the game while others sit in the bleachers...

**We deserve ultimate prosperity, which requires making our businesses and business activities as profitable as they can possibly be.**

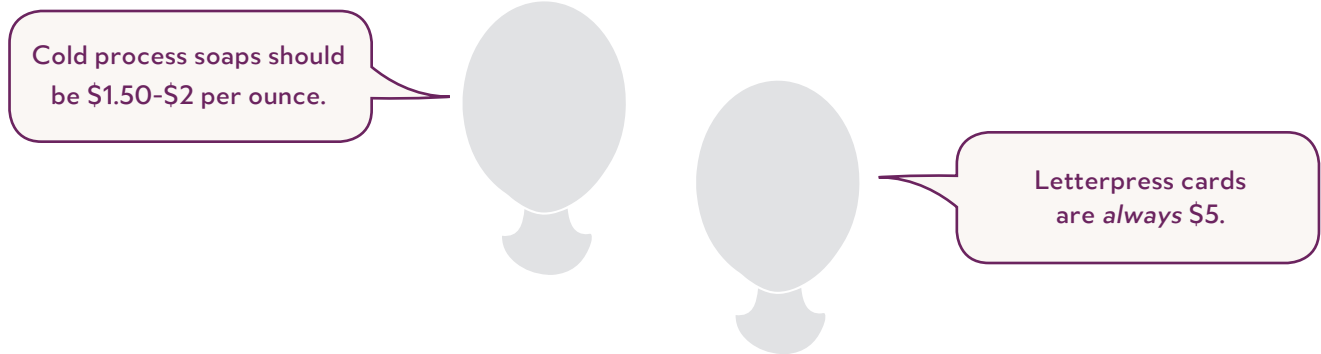
**You have both the right and the responsibility to get all the profit-produced prosperity you can squeeze from your business. Not a drop less.**



DAN KENNEDY

## UNDERSTANDING WHAT YOUR PRODUCT COSTS TO CREATE

The first step in building an effective pricing strategy is understanding what it costs to breathe life into your products. Through my work with 400+ creative brands, I've realized that many- if not most- of us are guessing at these numbers if we're thinking of them at all. Too often, we simply mimic the pricing strategies of other brands in our space.

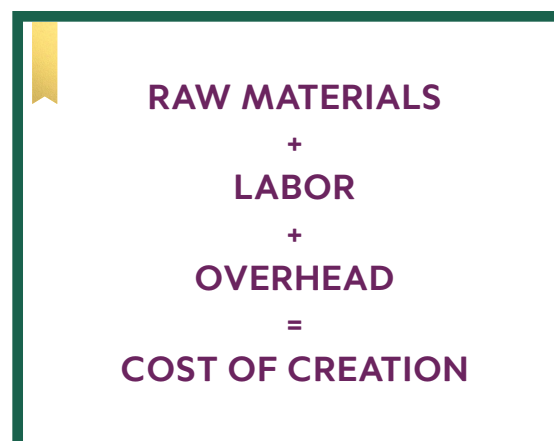


This is the entrepreneurial equivalent of strapping on a blindfold, spinning yourself around three times, and then trying to pin a paper tail on the proverbial donkey. Read here: *it's a great way to lose your ass*. If you're keen on building a sustainable business, then it's high time to evolve your thinking around product pricing. Let's roll up our sleeves and get to it, shall we?

**“ Don't let your competitors determine your price.  
They have no interest in your company's long-term viability. ”**

RONALD J. BAKER

Here's the magic formula for capturing a comprehensive snapshot of what it costs to bring your products into being...





**RAW MATERIALS:** Everything needed to create the finished product, including things that are consumed in the creation process but not part of the final product. Wait... *what?*



For example: if you're a furniture maker, then you're likely using wood, staples, nails, stain, and sandpaper. Note the sandpaper: It's used in the process, but not part of the finished product. To build a robust snapshot of your cost of creation, you'll need to capture that expense, too.

For apothecary product makers, that might be hair nets, gloves, paper towels, etc. For apparel and accessory designers, it would include tailor's chalk, basting glue, scrap fabric, and the like. Failing to account for every material consumed in the process removes all hope of deriving a meaningful record of your costs.

It's important to remember *landing costs* as well. Whether you're purchasing a bolt of fabric or a case of cocoa butter, there are tangible costs associated with the delivery of raw materials to your doorstep and those costs must be included in calculations. The "landed cost" reflects what is spent on a material, inclusive of all delivery fees. Though it's a bit of a mental pivot, it's wise to train your brain to hear the words "raw materials" and associate that term with the cost of those raw materials *delivered*.

**LABOR:** Labor includes all of the energy needed to create a product. Note that we're not concerned with the amount of energy necessary to *sell* the product. We're singularly focused on calculating the amount of energy needed to create it.



When calculating labor expenses, I recommend stratifying the wage rates. Let's play with the example of handmade mugs created on a throwing wheel. To take a hunk of clay and evolve it into a finished piece involves many steps: wedging the clay, skillfully forming the shape

## BONUS

Towards the end of this guide, you'll discover a series of worksheets I created to walk you step-by-step through the cost calculations and pricing exercises recommended in this guide. Whenever you see this symbol, that's your cue to keep an eye out for an additional resource near the end of this ebook!



on the wheel, attaching the handle, applying a maker's mark stamp on the bottom, etching into the mug or applying decorative decals, dipping the mug into a clear glaze, loading the kiln, unloading the kiln, cleaning up after a throwing session, etc.

Imagine your company as it scales: Will the person washing out the clay buckets and pulling finished pieces out of the kiln earn the same hourly rate as the person responsible for skillfully shaping the clay on the wheel and etching a complicated design into the freshly thrown mug? Likely not. Flat wage rates don't do your business justice, and I recommend avoiding them altogether. Assign labor rates based on what you'd have to pay someone else to do that exact task.

Begin by making a list of all the steps involved in the creation of a single product. Then assign a fair labor rate to each task. What's fair? That's largely subjective and strongly influenced by your location and values. Each state has a mandated minimum wage, so knowing that rate establishes a "bottom" upon which to build. Think about the skill sets and training needed to execute each task before opening up your local paper or online classifieds and exploring what individuals with similar talents and skill levels earn in your geographical region.

**OVERHEAD:** This bucket of expense is often a bit more perplexing for entrepreneurs, but it's fantastically simple in concept. Overhead includes all the recurring expenses related to the creation process that must be paid even when you don't sell a thing. Think: mortgage or rent (*add it in, even if you don't pay it!*), utilities, product liability insurance, etc. We're gonna need real dollah bills y'all, because you can't pay commercial rent in sugar scrub during slow months. *Believe me, I've tried...*

It's frightfully easy to get carried away with overhead calculations, adding in every expense under the sun. But it's wise to remember that you're focusing on the creation process, not the sales process. Show fees, website hosting, advertisements, credit card processing fees, etc.- none of those expenses enter into the overhead equation.

There are various strategies for calculating and accounting for overhead. The simplest? Add up all of your monthly overhead expenses, and then divide that sum by how many products you create per month on average.



$$\begin{array}{r} \$1200 \text{ in monthly} \\ \text{overhead expenses} \\ \div \\ 350 \text{ products you create} \\ \text{per month on average} \\ = \\ \$3.42 \text{ per product in overhead} \end{array}$$

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## WISH THERE WAS A MAGIC GENIE TO DO THE MATH FOR YOU?

I find mathematical equations almost as riveting as tragically long airport security lines and almost as enjoyable as cleaning out the kitty litter box. If you've spent the last 10 pages swigging wine and thinking that I'm off my rocker for asking you to do all of this math, then I suspect that you're not alone. But hear me out...

I'm betting dollars-to-doughnuts that you're a passionate creative, who's drawn more to the creative process than the "business ends of things." Of the 400+ creative brands that I've enjoyed mentoring, almost all of them launched down the path of entrepreneurship in a similar fashion.

1. They found a talent or hobby that lights them up, so...
2. They made oodles and oodles of that thing, but then one of two things happens...
  - Their roommate or significant other started getting a bit grouchy about the hostile takeover of the dining room for the sake of art, OR
  - Their friends or co-workers started inquiring about buying the fruits of their labor, which leads to...
3. A business. Next thing you know, they're flying blind on an exhilarating business adventure that leaves them more fulfilled than any day job ever could.

Sound familiar? If so, you're in great company! *But please lean in and listen very closely:* You must start treating your company like a business or you'll walk away from this entrepreneurial experiment in a few years with more self-doubt, more gray hair, more debt, and more troubled personal relationships than you brought into it. I've seen it happen to some of the most brilliantly talented, stunningly passionate

souls to ever walk the earth, and I'd like to help spare you from the same fate.

Skipping the math means flushing money down the toilet... *and you're smarter than that.* If the thought of doing all this arithmetic is spawning a furious Google search to determine how much alcohol your liver can metabolize per hour, then I invite you to automate the entire process.

It just-so-happens that I'm married to a crazy-brilliant tech guy with a fancy degree who's spent the last twenty years as an engineer at one of the world's largest tech companies. Over the years, he's developed custom spreadsheets for me to use in my product-based business. I eventually sweet-talked that gentleman into creating the Mother Of All Pricing Tools designed to empower makers everywhere to nail the math without tears or tequila. The system we created together is called [Price-O-Matic](#) and- this is not an exaggeration- *it's an effing game changer of epic proportions.* #humblebrag

Price-O-Matic has helped hundreds of apothecary brands, ceramicists, apparel and accessory designers, stationers, and gourmet food companies crunch the numbers with ease. It's accompanied by a 90-minute video workshop to demystify the financials of your creation process.

The software itself crunches the numbers on all of your labor, overhead, and raw materials and makes building new products a snap.

Once you've whipped together a product within the software, Price-O-Matic will analyze those costs through fancy pie graphs and color-coding systems, so you can attack the most expensive items and get costs under control. Even better? It enables you to try on various pricing strategies with a few simple clicks and it charts how various factors impact profitability: volume discounts, seasonal promos, sales reps, distributors, and more.

Tell the Price-O-Matic system what you need to clear as a minimum profit, and then click a button to try a new strategy. The screen will instantly change: Deep green? You're meeting your profit goals. Lighter green? This strategy meets your minimum profitability requirements, but things are getting a wee bit tight. Red? *Danger, Will Robinson!* This strategy or promotion won't ultimately make the money you need. All of your pricing data is deliciously intuitive and easy to digest. Huzzah!

I pinkie-promise that this software will change your life for the better. [Reserve your copy of Price-O-Matic](#) and you could unlock profitability by next weekend. True story!



# THE COST OF CREATION IS YOUR SPRINGBOARD TO PROFITABILITY

Remember this little equation?


$$\begin{array}{c} \text{RAW MATERIALS} \\ + \\ \text{LABOR} \\ + \\ \text{OVERHEAD} \\ = \\ \text{COST OF CREATION} \end{array}$$

Calculating your “cost of creation” is only the beginning, but it’s a critical first step. Knowing the expenses involved in bringing a product to life does two things:

- 1. It establishes parameters.** You’ll be able to quickly and effectively assess whether a particular collaboration, distribution opportunity, or product promotion will help pay the rent or simply run you ragged.
- 2. It identifies opportunities for cost savings.** Recently I worked with a perfume brand aimed at the teen market. The rollerballs filled with perfume are sold in chic, reusable fabric bags designed to disguise tampons as they’re toted around in backpacks and purses. Awesome idea, right? Unfortunately, once we charted out every expense associated with creating those bags via individual contract sewers, it became painfully obvious that the idea wasn’t financially viable... at least not in its current iteration. We reached out to a contract manufacturer here in the U.S. and brought the price down by half with a single inquiry. There’s immense power in knowing your costs!



“ Hate to crunch numbers? Me, too. But here’s a fact from my 30+ years of doing marketing consulting with business owners: those making the most money, especially those growing businesses from small to big, know their numbers inside and out, thoroughly and completely. ”

DAN KENNEDY

## THE POWER OF A VALUE-BASED PRICING STRATEGY

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Building a robust, accurate snapshot of the “cost of creation” empowers you in ways large and small, but you’ll never make the first dollar of profit if you sell your wares for the same amount of money that it cost to create them. Your next task is to build a healthy layer of profit on top of that set of expenses, which means that the cost of creation is your floor, rather than your ceiling. Ultimately, I recommend a type of pricing strategy known as “valued-based pricing.”

In a value-based pricing model, you’re intimately familiar with the cost of creation, but you don’t stop there. Your job is to know your target customer like the back of your hand, understand how they perceive value, and then price your product to capture the full value that it ultimately delivers to your ideal customer.



The good news? You’re in the driver’s seat when it comes to communicating the value of your products. There are number of techniques for raising the bar on your product collection and presenting it in a way that builds value in the mind of the consumer. A few ideas to whet your appetite...

- Incorporating quality materials into the creation process
- Sharing images of the creation process with customers
- Personalizing the buying experience by sharing your brand story with customers
- Designing an exceptional brand aesthetic
- Tagging in a professional to capture product photography
- Including editorial photos in marketing materials
- Providing outstanding customer service
- Developing an enriched unboxing experience
- Creating compelling product copy that focuses on benefits rather than features
- Amassing a sizeable following on the most important social media platforms for your audience
- Securing editorial coverage in key blogs, newspapers, and magazines

If you’re still trying to wrap your head around the ideal customers for your brand, then I invite you to check out a [juicy blog post and free worksheet](#) I put together.

**A WORD OF CAUTION ABOUT IDEAL CUSTOMERS:** Many of the brands that I work with have a dreadfully hard time pricing high because they can’t imagine anyone other than themselves as the ideal customer. Too often, we apply an artificial price ceiling because we perceive ourselves as customer, and we think *“I’d never pay that for a scarf/ art print/ bar of soap/ pair of shoes/ writing journal/ (insert your product here).”* But are you your brand’s ideal customer?





# MAKERS GONNA MAKE

For many of us, the answer is “no.” It’s our responsibility to be intimately aware of the target audience and to price for *them*, rather than *us*. This critical mindset shift is a pivotal step in building a successful, sustainable business. Gut check and ask yourself: “Are you the ideal customer for your brand?” If not, then it doesn’t matter if you would or wouldn’t pay the price you’re asking!

Say it with me: **HANDMADE DOESN’T EQUAL CHEAP.** I’ve meditated on getting that tattooed somewhere on my body. Makers and artisans can’t compete on price, and we shouldn’t even attempt to play in the low-price arena. We create beautiful things with quality materials through time-intensive creation processes, and we ought to be pricing our wares accordingly. Please don’t undersell yourself!

“ **Low price is one way for you to compete.  
It’s also the dumbest thing for you to try to compete on.** ”

WILLIAM T. BROOKS

**In a nutshell, the process of developing an effective pricing strategy for your brand looks like this:**

1. Determine your total cost of creation.
2. Understand your target audience on an intimate level.
3. Assess the value that your product ultimately delivers to that audience.
4. Assign a price that captures the full value of step #3.

# THE SEVEN DEADLY SINS OF PRODUCT PRICING

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These mistakes are sinking your competition... don't let them bite you in the tuckus, too!

## DEADLY SIN #1: FAILING TO INCLUDE THE COSTS OF LABOR AND RENT IN YOUR CALCULATIONS FROM DAY ONE.

If there's a single, fatal pricing mistake in the maker community, it's the failure to account for labor from the very first sale. As an entrepreneur who's bootstrapped several companies, *I totally understand why we omit this piece*. Many believe that we're investing "sweat equity" in our companies, voluntarily passing on a paycheck until the business turns a profit. If I were a betting woman, I'd bet that you've been there... and perhaps you're there now. While there's no shame in the bootstrapping game, there's a paralyzing problem with not including the cost of your efforts in the price of your products from day one.

Even if you're not yet collecting a paycheck, I implore you to build a labor rate into your pricing structure. Failing to do so will hamstring your company as it grows, backing you into a dangerous corner that's difficult to escape without an enormous amount of work. When the time comes to hire help, then you'll need to either...

- A.** Accept significantly lower profits (potentially erasing profits altogether) to compensate your new team members, *because no one's quite as eager to work for free as you are!*  
– OR –
- B.** You'll need to suddenly and significantly raise prices to cover the new labor expenses. Significant price hikes typically require a repositioning of the brand within the

marketplace, and repositionings are a hell of a lot of work. Can you radically hike prices and survive in the marketplace? Probably, but your products will be seen in an entirely new context, and you'll need to rise to the occasion and find new customers. More on that in a moment...

Before we move on, I'd like to throw myself at your feet and beg you to include mortgage or rent expenses in your calculations, too, even if you're working exclusively from home. Why? As the business grows, you'll likely find yourself needing to move production out of the residential space. If you haven't been accounting for this expense in your "cost of creation" calculations, then you'll find yourself in a similar dilemma to the labor crisis: Either profits evaporate or you suddenly boost prices. And- heads up- *both of those options are uphill battles*. They're often worth fighting, but they're rarely easy.

The one exception? If scaling your business beyond a one-man-band and/or eventually selling the business isn't part of the master plan, then you might elect to keep accountings for production space and your labor out of the equation. But if that's the case, then I'd still like to throw myself at your feet and beg you to revisit page 5 of this guide for a pep talk on your right to profitability. *Why are you leaving money on the table, sister?*

## **DEADLY SIN #2: NEGLECTING TO INCLUDE PAYROLL TAXES IN THE CALCULATION OF LABOR EXPENSES.**

I distinctly remember the exhilaration I felt as my boyfriend drove me to Sonic to pick up my very first paycheck at the ripe old age of 14 (*former carhops, unite!*). I felt like such a hot shot as I strolled in, plucked that envelope, and strutted back to his car.

Unfortunately, the elation evaporated the moment I ripped open the envelope. The boss had stiffed me! I did a quick mental calculation of *hours worked x hourly wage* and was instantly incensed at being shorted. I impulsively announced to my boyfriend that I was going to march right back in and tell off the manager, then storm out in dramatic fashion, having served my last order of tots for all of eternity.

That's when he asked to look at the check and then ever-so-gently explained the concept of payroll taxes to me. *Oh.*

If you earn \$10 an hour as an employee, then you're taking home somewhere between \$8-9 per hour on your paycheck. Here's something I never understood until I employed others: the boss matches most of those payroll taxes. In the United States, that \$10/hour chore equates to \$8-9 for you and \$11-12 for the employer.

When calculating labor rates for product creation, don't forget to account for these mandatory payroll taxes. Payroll tax rates vary by state, and a quick chat with a state tax official will likely serve you well. Not feeling up to a tête-à-tête with the tax man? Adding a 15-20% premium to all wage rates will keep your company on solid financial footing with wage calculations.

## **DEADLY SIN #3: CALCULATING THE RETAIL PRICE POINT FIRST AND THE WHOLESALE PRICE POINT LATER.**

While it likely seems less intuitive, establishing the wholesale price first is an infinitely smart business move. Many of the entrepreneurs who tag me in to help develop their wholesale strategy find themselves rather far up a creek because they don't have the margins necessary to wholesale. They've unknowingly established a retail pricing structure that simply doesn't allow them to play in the wholesale marketplace.

Whip out your crystal ball: Is there even a remote possibility that you might one day wholesale your products? If so, you'll spare yourself a tremendous deal of anxiety and poise your company for growth if you develop a pricing strategy now that leaves as many options on the table as possible.

The majority of store buyers expect to pay 50% of your retail price, and they'll likely double your wholesale price to arrive at their final selling price. As an important aside: Wholesale buyers anticipate that your retail customers (those who purchase through your branded website, via Etsy, and at shows) will pay a sum that's roughly double your wholesale price. This ensures that the retail price point of your products is consistent across distribution channels.

**RAW MATERIALS + LABOR  
+ OVERHEAD = COST OF  
CREATION**

**COST OF CREATION + PROFIT  
MARGIN = WHOLESALE PRICE**

**WHOLESALE PRICE X 2 =  
RETAIL PRICE**



Corporate accounts (I'm speaking here of big retailers like Anthropologie, Urban Outfitters, Target, etc.) will likely want preferential pricing, which reflects a price point that's less than your typical wholesale cost. They enjoy that buying power because they purchase in volume. Curious about when it's wise to offer volume discounts? [Right this way](#)... I wrote a blog on that very subject.

Keep in mind, too, that sales reps who represent paper and gift brands will expect to earn a 15% commission on each sale. Establishing your wholesale accounts as "house accounts" (those that you cultivate yourself without the assistance of a sales rep) is a distinct possibility. In fact, that's how most brands dip their toes in wholesale waters. But if you envision that reps might one day be part of your sales strategy, then it's wise to consider that 15% commission rate when developing your pricing strategy and build it into the margin. Doing so will make for richer profits on each retail sale (*hooray!*) while ensuring that you clear respectable profits on wholesale transactions.

If you're keen on launching or refining a wholesale program that gets your work out there in a big, big way, then I invite you to explore the [tools and courses I've designed to support wholesale-savvy makers](#). From line sheet design to on-demand classes about trade shows and sales reps, I've got ya covered!

## **DEADLY SIN #4: PLAYING IT SAFE BY PRICING IN THE MIDDLE.**

Brands that price "in the middle" get squashed. Why? Because that middle ground is where virtually everyone is playing and products are all-but-doomed to disappear into an abyss of similar wares.

**“A price in the middle doesn't have any competitive advantage. It destines you to mediocrity.”**

JASON MARRS

If you elect to compete at the lower end of the pricing spectrum, then you inevitably attract bargain shoppers, but that's a losing strategy for artisan brands. Pricing low is a race to the bottom in which nobody wins!

When in doubt, I vote for heading north and pricing high. Of course, you'll need to communicate commensurate value to accompany that higher price tag to entice customers to bite. See page 13 for my thoughts on how to do just that.

I always recommend pricing high proudly and without apology because it positions your brand for sustainable success. Challenge yourself to compete on customer experience while building emotional resonance and brand cachet. That's where you have an opportunity to truly win!

In the troubled economy of the past several years, many brands have slashed their prices in pursuit of profitability, which is awesome news for the handmade industry. Why? The pyramid has become increasingly broad and crowded at the bottom, creating an incredible opportunity for the brands who courageously summit the pyramid by creating and communicating more value.

My motto? If your final price point doesn't make you slightly uncomfortable, then it's not high enough.

“ Like money, price talks. It changes perceptions.

**Price changes the actual experience of using the product or service. Higher prices don't just talk, they tempt. ”**

HARRY BECKWITH

### **DEADLY SIN #5: OFFERING TOO MANY PRODUCTS.**

I'm gonna give it to you straight: launching a “too large” product collection is one of the most common mistakes I see in my work with product-based brands. We're often fueled by passion and creativity (*which is a beautiful thing!*), but it's also a double-edged sword in business.

It's a delicate balance, but our job is to nourish the creativity while establishing healthy parameters. We must ultimately position ourselves to launch carefully curated product collections that are both profitable and manageable. There's a direct (and often overlooked) link between elevated costs of creation and bloated product collections.

Please repeat after me: **JUST BECAUSE I ENJOY MAKING IT, DOESN'T MEAN I SHOULD SELL IT.** Launching too many products is a mistake because...

- It keeps the cost of creation artificially high.
- It keeps profits painfully low.
- It divides attention and diminishes the kind of focus needed to build lasting business momentum.
- It makes it more challenging to truly “own” anything in the mind of your consumer.
- It's often an indicator that you're cannibalizing your own product collection.

So what's the fix? Thoughtful editing. Although I don't subscribe to a standardized formula for how many products are “acceptable,” I'm a big believer that less is more.

If you find yourself needing to cull a swollen collection, then a review of your cost of creation and sales data is an ideal place to start. The necessary sales data can typically be pulled directly from your accounting software and/or e-commerce platform. If you have my [Price-O-Matic](#) system (commonly referred to as “the best damn pricing software on the planet”), then your cost of creation should be especially easy to tabulate and extract. Review the data and put it through these paces...



- **WHAT PRODUCTS AREN'T SELLING?**

If a product isn't moving in significant quantity, then it needs to be relegated to the archives.

- **WHAT PRODUCTS AREN'T BEARING FINANCIAL FRUIT?**

What's making money? If you love making it and your customers love buying it but it's not moving your financial ball forward, then the product should be left on the cutting room floor. And if you only guess at your costs of creation, then you're essentially flying a plane blindfolded. *No thanks!*

- **WHAT DOESN'T FIT WITHIN THE BRAND STORYLINE?**

If something doesn't jive with what you're all about as a business, then scrap it. The product collection (and your company's health) will be all the better for it... promise.

## **DEADLY SIN #6: DEVALUING YOUR BRAND BY OFFERING DISCOUNTS.**

I not-so-secretly loathe discounts and sales. When promoting a sale, you move the conversation away from *value* and place it squarely on *price*, and that's not a wise direction in which to focus attention. It's worth keeping in mind, too, that price-conscious shoppers don't typically exhibit a great deal of brand loyalty. They'll abandon ship once a new "cool kid" brand rolls onto the block or the moment a lower-priced option appears.

Even worse? Announcing a special promo code this week miffs all the customers who ordered last week. When I first launched my product-based brand, I hit this stumbling block with a vengeance! My customer service team found themselves fielding calls from disgruntled customers each time we launched a sale. So we implemented a new rule: If the customer had ordered up to three days before the sale announcement and they contacted us within 24 hours of the

announcement, then we'd honor the promotion and offer a refund equivalent to the sale price. That worked well, until customers from days four and five called, miffed that customers from days one to three got the deal, but they didn't. There's no bottom and absolutely no way to win as the brand owner!

Running frequent promotions also trains customers to order only when there's an opportunity to score a sweet deal. And once they're spoiled, it's virtually impossible to entice those customers to order products at full-price.

I encourage you to play the long game of cultivating loyal customers, rather than the short game of immediate cash flow. It takes patience and smarts, but it's ultimately the key to building a significant following of faithful advocates who line up to buy your next-big-thing and spread the word to friends and family.

## I RECOMMEND AVOIDING THESE PROMOS LIKE THE PLAGUE...

- Percentages off a single product or entire order
- Flat dollar discounts on a single product or entire order
- Luring new email subscribers with a coupon in exchange for their email address


## INSTEAD, TRY THESE STRATEGIES ON FOR SIZE...

- Free shipping
- Expedited shipping
- Buy *this*, get *that*
- Complimentary gift wrap + handwritten notes during holiday buying
- Buy *this* and we'll donate *that* to a specific cause
- The inclusion of samples of other products from your collection
- Buy *this* and receive samples or products from other brands (hello, collaboration opportunity!)
- Buy one, get one free (an awesome way to clear an inventory of discontinued products)

In short: Add value, but never deduct collars. You may win in the short term, but you'll almost certainly lose in the long run. And I pinkie-swear that it's quite possible to build a wildly successful product-based brand without tempting your customers through sales!

“ Pricing is a skill similar to baseball, tennis, or golf:  
The more you do it, the better you get. ”

RONALD J. BAKER



**PS:** I encourage my clients to forego using discounts to attract new customers and/or tickle sales from an established customer base, and I hold myself to the same standard at Lucky Break. I don't host "sales" through my consulting company. I do offer preferential pricing to a few select maker communities, and I typically introduce new products and services with limited time "introductory pricing" in gratitude to loyal fans who are paying attention and quickly hop on a new offering.

## **DEADLY SIN #7: OVERESTIMATING THE ANNUAL NET PROFIT POTENTIAL OF THE BUSINESS.**

This number comes as a shock to many of my clients, but a successful creative brand can bank on 10-15% of their annual revenue in profit. And that figure assumes that *you're running a smart, lean business.*

**\$250,000 in revenue =**

**\$25,000-\$37,500 in PROFIT after all expenses are paid at the end of the year**

As an entrepreneur, you might elect to reinvest some or all of that profit back into the business to fuel growth, or you may choose to withdraw some or all of that profit as a reward for your work.

If that 10-15% figure is discouraging, then consider this: If you price correctly, then you've covered your labor as a component of the cost of creation. Assuming that you're personally doing the product creation, then you were paid a reasonable wage for that work. The profits at the end of the year serve as additional compensation for being the owner.

If you scale the company and lift out of the role of product creation by hiring people to create for you, then those teammates will collect the wages you've built into the cost of creation, but you'll collect the profits as the owner at the end of the year. By hiring help and doing more brand development/strategic steering, the business should grow more quickly, increasing your "owners take" of the profit.

## **A FEW MORE A'S TO COMMON PRICING Q'S**

*"I just crunched the numbers to discover my cost of creation and (three glasses of wine later) I'm currently crying in a hot bath. I'm shocked by the numbers! How can I get my costs down?"*

If you're three glasses of wine in, then I hope they were red, and bonus points if you're drinking Malbec! Most entrepreneurs need either a stiff drink or a good cry (and sometimes both) when they realize what it's costing to create their products. If nothing else: take heart in knowing that you're in some fantastic company. These gentle nudges should help rein in costs...

### **A. OFFER FEWER PRODUCTS.**

There's a better-than-even chance that you have an emotional attachment to everything in your collection, and at least one or two devoted fans for each offering. Even still, it might be time to pull out a fresh red pen and rethink your product collection. Larger collections are vastly more expensive to produce and scrappy startups, fueled by enthusiasm, frequently bite off more than they can reasonably chew. I've tucked a few suggestions for wisely culling a product collection into page 18 of this guide. They should get you off to a fine start!

## B. STREAMLINE THE CREATION PROCESS.

- Can you batch tasks to increase efficiency?
- If you're already creating products in batches, can the batch size be increased?
- Would a fancy new tool or piece of equipment make some facet of the creation process more efficient?
- Is it possible to purchase one or two raw materials that already have some of the finishing work completed? For example: greeting cards that are pre-scored at the printer, inks that are delivered to you pre-mixed, lavender buds that have already been crushed into powder, labels that are professionally printed, etc.
- Could you reorganize the workspace to improve the flow of movement and limit unnecessary searching/steps?
- Is the packaging process especially complicated? If so, can you envision a new packaging concept that's less time-intensive?

Small leaks in time add up to significant losses in profit! Seal them up tight whenever possible.

## C. SHOP COMPETITIVELY.

Price-check your raw materials at least twice per year and aggressively seek cost savings. With as many tasks as we have on our plates, creative entrepreneurs often fall into complacency with vendor selection, ordering from the same sources over and over again without keeping an eye on creeping raw material prices.

It's imperative that we resist the lure of complacency. Send up a periscope periodically to research the prices of critical raw materials via multiple vendors. The company whose 18k gold wire or glass beads were your best option last year might not be the most cost-competitive this year. And you'll never realize that if you're eye-ball deep in the weeds of running your empire.

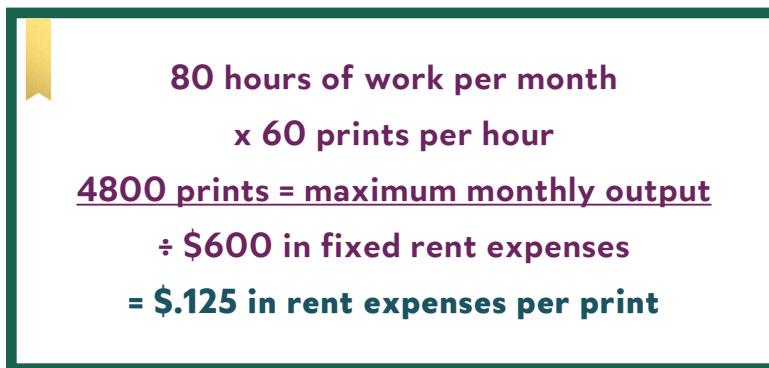
## D. TAP THE ECONOMIES OF SCALE.

That's a fancy term for the cost advantages a company enjoys when they expand. For example: If sugar scrubs are part of your product collection, and you receive an order for ten scrubs, then you're likely heading to the grocery store to buy sugar at retail prices. However, if a fancy spa orders 100 sugar scrubs, then you're more likely to purchase a larger bag of sugar from a restaurant supply company at a better price to fulfill the order.

10 SUGAR SCRUBS	100 SUGAR SCRUBS
5# bag of sugar at \$4 each	25# bag of sugar at \$14
Sugar costs \$.80 per pound	Sugar costs \$.56 per pound

The cost per pound of sugar just dropped by almost 30% simply by purchasing a raw material in quantity! No need to reformulate or repackage. *How much do we love the economies of scale, eh?*

The principle holds true for businesses of all sizes and across all product categories. Suppose you create letterpress prints and you rent a teeny-tiny workshop at a cost of \$600 per month. You hire a helper who can create 60 prints per hour and he's able to work 10 hours per week, which translates to a maximum output of 2400 prints per month (40 hours of work per month @ 60 prints per hour). If we divide your workshop rent (\$600) across your output (2400 prints), then each print costs your business \$.25 in rent. If you were to hire a helper who works twice as many hours, then you'd cut rent expenses per product by half!


$$\begin{aligned} & \mathbf{80 \text{ hours of work per month}} \\ & \mathbf{\times 60 \text{ prints per hour}} \\ & \mathbf{4800 \text{ prints} = \text{maximum monthly output}} \\ & \mathbf{\div \$600 \text{ in fixed rent expenses}} \\ & \mathbf{= \$.125 \text{ in rent expenses per print}} \end{aligned}$$

Purchasing raw materials in bulk, increasing batch size, and running the workshop as many hours as possible (and as efficiently as possible) will translate into more dollars in the coffers. The economies of scale are your single greatest weapon in cost-savings!

*“I know that I need to raise prices, but I’m worried that some of my customers will jump ship as soon as I announce a price hike. What can I do to shore up my customer base and help cushion the blow of higher prices?”*

My children are long past toddlerhood, so it’s exceedingly rare that I channel Elsa from the movie “Frozen,” but right now seems like a particularly apropos moment. *“Let it go, Let it goooooo, they shouldn’t hold you back anymooooore!”*

If you’ve cultivated a base of bargain shoppers then it’s wise to brace yourself for a potential exodus when significant price hikes are on the horizon. At the risk of sounding flippant, though: “How much do you care if those the bargain shoppers move on to another brand?”

That type of audience won’t sustain your business in the long run. The moment a lower-priced or more conveniently placed product comes along, they’ll defect from your brand to save moolah. I call these “value buyers” and I’ll admit that I’m one of them when it comes to the purchase of some items in my home. Scrubber sponges? The one that’s on sale this week. Plant food? The packaging that immediately catches my eye when I dart into the nursery. But I have some pretty loyal preferences when it comes to my mascara, my day planner, the candles I burn in my office, and the earrings I slip into my ears. For those products, I’ll gladly pay a bit more and go out of my way to secure them.

Many of the brands that I work with discover that they have heaps of value buyers in their customer base, and for good reason: these buyers are the easiest to attract when pricing low and many of us vastly undervalue our work at the onset of the entrepreneurial journey. While I don't relish the experience of losing customers, I have learned to emotionally release buyers who aren't my ideal customers. If you're playing your cards right, your ideal customers will stick around through a moderate price increase.

I hope you'll work diligently towards the ultimate goal of creating a brand rather than selling a commodity. Commodities are products that can easily be substituted for one another. They're items for which a demand exists, but there's no qualitative difference across a marketplace. The scrubber sponges and plant food I mentioned are perfect examples.

In contrast, brands create differentiated products that are highly desired by their ideal customers. Brand customers have some degree of brand loyalty, seeking out those specific goods in the marketplace. These customers are less likely to substitute products based on price and availability.

I vote for building a brand over selling a commodity every day of the week, but that pursuit will be successful only if you step up and play the long game. If you're keen on building a brand, then I offer a pretty amazing, hands-on, eight-week brand incubation program called [Brick House Branding](#). Enrollment is open a few times per year, and I'd love to save a seat for you when the time is right!

If you know in your gut that it's time to make the switch, then I recommend a few things...

**A. Make certain that you've done a considerable amount of brand development before you evolve the business model and pricing structure.** A firm grasp on your ideal customer and marketing strategy is essential.

**B. Make smart investments that clearly communicate the value of your products.**

You might find yourself needing to up your presentation game via new packaging, new photos, or an upgraded website. So be it! Trying to DIY every last facet of your business is a recipe for heavy drinking and the collapse of your personal relationships. It might be time to open the wallet and delegate to a pro, but not before you've done the brand development work mentioned above and not without first doing some serious due diligence on the professionals under consideration.

**C. Stockpile as much cash as possible.** Significant price increases often necessitate a repositioning of the brand within the marketplace. In essence, you're lifting your brand out of one context and dropping it into a new context in the marketplace- your distribution channels might change, your customers will evolve, and your competitive set will be different. These migrations- even when done well- likely translate to a few lean months. *Don't panic!*

If you anticipate months of soft sales ahead, then plan accordingly. Here are a few ideas for rustling up some cash:

- Host a garage sale.
- Clean out your old clothes and take them to a reseller/ consignment store.
- Call in any money you've loaned over the years.
- Rely on family for financial support for a few months.
- Downgrade your car.
- Pick up a side job for six months.
- Start a small, service-based venture: baking, tutoring, walking dogs, and cleaning houses are relatively easy to jumpstart.
- Explore loan opportunities through PayPal Working Capital or the Kiva Zip program.

Aim to have at least three months' worth of operating expenses tucked away before making a significant price hike.



If you're looking for the nearest ledge, please know that I'm not speaking here of the casual 5% or 10% adjustment. If those sorts of corrections are needed, then get them out into the world sooner rather than later. The plan of attack I've outlined is designed with true brand evolutions in mind. When you've been charging \$4 for that bar of artisan soap and you know it should be \$8 or even \$10. Those amazing embroidered necklaces that are currently parked at \$35 when they should be commanding \$75. Develop a competent, customized strategy and I promise that it's possible to evolve both your product collection and customer base in a way that'll make you doing-cartwheels-excited!

One more morsel to chew on when contemplating a price increase: If you double your prices and promptly lose half of your customers, then you've still come out on top! You'll earn the same amount of revenue in half the time. By reinvesting that time elsewhere, you can push into new markets and work *on* the business rather than *in* the business, increasing overall revenue. Also, catching up on your sleep would probably be a wise investment of some of that time, too!

**“If you go broke from overpricing, at least you won't be as tired.”**

WILLIAM T. BROOKS

*“I understand the process of calculating my costs of creation, but what about all of my other costs: my website, show fees, credit card processing fees, the fees I paid to have my logo designed, etc. How do I account for all of those?”*

The costs of creation are simply that: *the costs of creating your products*. They don't encompass all of the expenses of running a business, and they're not designed to. They're designed to establish some healthy parameters for pricing exercises and to help you understand where those product-based dollars are going, empowering you to search for cost-savings and lasso each line item into shape.

Imagine that you create shibori-dyed pillow covers. (*Side note: Do you? If so, drop me a line because I'm totally on the prowl for a pair!*) Your pricing strategy might look like this...

### SHIBORI PILLOW COVERS

**COST OF CREATION: \$18**

Includes: cotton fabric, dye, rubber bands, soda ash, thread, zipper, creation labor, and overhead

**WHOLESALE PRICE: \$45**

**RETAIL PRICE: \$95**



The difference between the stated cost of creation and a wholesale sale assisted by a sales rep (assuming a typical 15% commission rate) is \$20.25.

The difference between the stated cost of creation and the wholesale price (assuming the sale is made without the assistance of a sales rep) is \$27.

The difference between the stated cost of creation and a retail sale (via Etsy, your website, a craft show, etc.) is \$77.

The costs associated with the sale of the product are adequately covered in the final pricing structure. Don't get hung up jamming every last business expense into the "overhead" bucket when calculating the cost of creation. You'll drive yourself mad and radically skew costs in the process. Stick to the expenses that are directly tied to product creation and leave it at that!

As I mentioned on page 26, you can expect to capture 10-15% of your annual revenue as profit. If you sold \$200,000 in shibori pillows next year (assuming a mix of 50% direct wholesale and 50% direct retail), then you'd likely net \$20,000-30,000 when all is said and done.

**\$100,000 in pillow revenue from wholesale = 2,222 pillows**

**\$100,000 in pillow revenue for retail = 1,052 pillows**

That's 3,274 total pillows sold @ \$18 "cost of creation" each,  
which amounts to \$58,932 in total product costs

**\$200,000 in annual revenue**

**- \$58,932 in product creation expenses**

**- \$20,000-30,000 in net profit**

**= \$111,065 is the budget for business expenses  
which aren't related to production**

Those margins allow for a robust budget for advertising, marketing, trade shows, website expenses, customer service support, tax liabilities, etc.



Pricing is complex, nuanced, and brand-specific. And it's not an area of your business that's best left to chance.

Through a private strategy session, you and I enjoy an opportunity to dig deep into your business to understand its current position in the marketplace. If adjustments are needed, I lay out the game plan for turning the ship. We analyze your cost of creation, your current sales channels, and perform an audit on your current pricing structure. I marry that information with your business goals and information about your customer base to evolve your pricing into a value-based model that generates more money as it fortifies the brand perception.

Calculating product costs? I designed the software for it. [Literally](#). And if you're worried about how to announce a price adjustment, then you've come to the right place. There's an art to that messaging, and I happen to have a fourth-degree black belt in announcing price adjustments in a way that makes customers feel like they just hit the lottery. Strategy sessions are uniquely tailored to your business and individually designed to help navigate the path immediately before you.

[Reserve your private strategy session](#) and my Client Concierge team will be in touch with a carefully designed questionnaire for you to complete and return before our time together commences. It will ask a series of questions and walk you through exercises designed to deliver insightful epiphanies for you and laser focus for me. This critical step means that I'm familiar with your brand and ready to hit the ground running during our time together!

### **YOUR POWER HOUR INCLUDES:**

- The pre-consultation questionnaire (buckle up for some serious revelations)
- 60 minutes of brainstorming and wisdom downloads with me via phone
- An MP3 playback of our call (no need to capture notes)
- A post-consultation email with additional resources and your action plan

Availability is limited, and my calendar tends to book up quickly, so I encourage you to snag a spot if you're finally ready to [price with confidence](#).



# I COME BEARING GIFTS

*And who doesn't love presents?* On the following pages, you'll discover a series of worksheets designed to guide you step-by-step through the pricing exercises I've recommended. You're welcome to print as many copies as needed for your personal use, but I respectfully request that you resist any urge to share these copyrighted documents within your favorite forums or online groups. Have an entrepreneurial friend you think will benefit from them? *Awesome!* Please [send them my way](#) and I'll slip this groovy pricing guide into their hot little hands instantly and for F-R-E-E upon registration at my website. I'm grateful for your cooperation (and your karma is, too!).

## **PUT THESE WORKSHEETS TO WORK!**

Here's how to make 'em earn their keep:

1. Focus on your best-selling product and put it through the paces on the following pages.
2. You'll need to complete just one *Calculating Overhead* worksheet for the entire business. It's universally applicable to all of your offerings.
3. The rest of the tools are product-specific, meaning that a separate worksheet is needed for each product. Once you knock out that best seller, begin the exercises anew with another product from your collection. Continue until each of your offerings has been slipped under this pricing microscope.
4. If you'd like to automate all the number crunching, then my Price-O-Matic will be your new BFF. It organizes product costs and supplier data, identifies opportunities for cost savings, and empowers you to scale the creation process up or down without picking up a calculator. Even better? It eliminates calculation errors and saves heaps of time, too. You can reserve a copy at the [Lucky Break website](#). If you're already the proud owner of a Price-O-Matic system, then can skip ahead to the final two worksheets: *Bringing It All Together* and *Meditations On Value*.

Good luck and may the force be with you!

# CALCULATING OVERHEAD

Overhead includes all the recurring expenses related to the creation process that must be paid even when you don't sell a thing. Think: mortgage or rent (*add it, even if you don't pay it!*), utilities, product liability insurance, etc. It's frightfully easy to get carried away with overhead calculations, adding in every expense under the sun. Remember to focus exclusively on the creation process. Show fees, website hosting, advertisements, credit card processing fees, etc.- none of those expenses enter into the overhead equation.

Using this overhead method, you'll calculate a single overhead rate per company, not per product. That means you only need to complete this sheet once. You'll simply apply the overhead-per-product calculation to each offering in your product collection. I've filled in the first row as an example...

OVERHEAD EXPENSE	AMOUNT YOU PAY	HOW OFTEN DO YOU PAY IT?	HOW MUCH IS THAT PER MONTH?
Rent	\$250	Every 2 weeks	\$500
			\$
			+ \$
			+ \$
			+ \$
			+ \$
			+ \$
			+ \$
			+ \$
			+ \$
			+ \$
<b>TOTAL OF ALL MONTHLY OVERHEAD EXPENSES</b>			<b>= \$</b>
<b>DIVIDE BY HOW MANY PRODUCTS YOU MAKE ON AVERAGE EACH MONTH</b>			<b>/</b>
<b>TOTAL OF ALL MONTHLY OVERHEAD EXPENSES</b>			<b>= \$</b>

While this is a deliciously simple method for calculating overhead, it's ultimately "product-blind." In essence, that means that it assigns an equivalent amount of overhead to a small lip balm and a large jar of sugar scrub, a simple pair of earrings and an intricate necklace, a greeting card and a journal. My [Price-O-Matic](#) software is programmed to zero in on overhead in a way that's automatically calculated and product-specific.

# CALCULATING RAW MATERIALS

Your raw material list should include everything needed to create the finished product, including materials that are consumed in the creation process but not part of the final product. For example, the sandpaper needed to create a new wooden bookshelf. Don't let a single material- no matter how insignificant it might seem- be omitted from the process. Remember to use the *landed cost* in all calculations. Whether you're purchasing a bolt of fabric or a case of cocoa butter, there are tangible costs associated with the delivery of raw materials to your doorstep and those costs must be included in calculations. The "landed cost" reflects what you spend on a material, inclusive of delivery fees. You'll find an example below in the first row...

<b>WHICH PRODUCT IS BEING CREATED?</b>	
<b>HOW MANY PRODUCTS WILL THIS BATCH YIELD?</b>	

RAW MATERIAL	COST	QUANTITY NEEDED	WHICH EQUALS
14k Gold Earring Hoops (sold in pairs)	\$5.58	X 1	= \$5.58
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
	\$	X	= \$
<b>TOTAL OF ALL RAW MATERIALS</b>			= \$
<b>DIVIDED BY THE NUMBER OF PRODUCTS YIELD</b>			/
<b>TOTAL RAW MATERIAL COST PER PRODUCT</b>			= \$

Things can get a bit tricky when you're buying a raw material in one measurement and using it in another. For example, you might purchase olive oil in five gallon pails, but use it by the ounce in your batches. Fabric is often purchased by the bolt, but used in inches. And that's where some *serious* number-crunching comes in! You'll need to work through a series of calculations to get your raw materials down to an apples-to-apples comparison. If you'd like to automate that process, then my [Price-O-Matic software](#) is an answer to whispered prayers. It's preprogrammed with a dizzying number of conversion rates for a wide variety of raw material types, so you can ditch the calculator for good!

# CALCULATING LABOR

Labor includes all the energy needed to create a product. Remember that we're singularly focused on calculating the amount of energy needed to *create* the product, exclusive of the energy needed to *sell* the product.

Print this worksheet and keep it nearby as the creation process unfolds. Carefully time each task and record the time needed in the second column as each step is completed. Keep the paced focused, but not frantic.

The third column (estimated hourly rate) should be completed after you've done some research. Because labor rates vary significantly by region, I recommend cracking open the Sunday paper or browsing online classifieds to explore what individuals with similar talents and skill levels earn in your area.

Correctly calculating labor expenses will depend on four factors:

- Including every step in the process
- Accurately capturing how long each of those tasks requires
- Assigning reasonable labor rates
- Including the required payroll taxes

Print as many copies as necessary for a single product. I've completed the first row to illustrate the concept!

<b>WHICH PRODUCT IS BEING CREATED?</b>	
<b>THIS CREATION PROCESS WILL YIELD HOW MANY?</b>	

TASK	MINS NEEDED TO COMPLETE	ESTIMATED HOURLY LABOR RATE	LABOR RATE +15-20% PAYROLL TAX	FRACTIONS OF AN HOUR NEEDED?	TOTAL
Label jars	30	\$10.00	\$11.50	.5 (30 mins)	\$5.75
		\$	\$		\$
		\$	\$		+\$
		\$	\$		+\$
		\$	\$		+\$
		\$	\$		+\$
		\$	\$		+\$
		\$	\$		+\$
<b>TOTAL OF ALL LABOR EXPENSES FOR THIS PRODUCT</b>					<b>= \$</b>
<b>HOW MANY PRODUCTS ARE CREATED BY THIS LABOR PROCESS?</b>					<b>/</b>
<b>TOTAL OF ALL LABOR EXPENSES FOR EACH PRODUCT</b>					<b>= \$</b>

# BRINGING IT ALL TOGETHER

This worksheet is designed to bring together all of your calculations into a single spot!

<b>PRODUCT NAME</b>	
<b>TOTAL RAW MATERIAL COST (PER PRODUCT)</b>	<b>\$</b>
<b>TOTAL LABOR EXPENSES (PER PRODUCT)</b>	<b>+ \$</b>
<b>OVERHEAD PER PRODUCT</b>	<b>+ \$</b>
<b>TOTAL COST OF CREATION</b>	<b>= \$</b>

Remember that the cost of creation establishes a pricing floor, not the ceiling. It's your springboard to profitability, establishing base parameters for pricing exercises. Once the cost of creation is established, then I recommend using the value-based pricing model to determine where the final price point ultimately falls.

Think about your ideal customers and meditate on the value that your product ultimately delivers to that target audience. Contemplate, too, what competitors are charging for similar products aimed at the same audience. Try playing with a price point that's high enough to make you slightly uncomfortable while positioning the brand to attract the consumers and shops with which you hope to work. Jot down the price point you're envisioning below and we'll reverse engineer it. I completed an example as an illustration!

## HERE'S MY EXAMPLE...

<b>TARGET RETAIL PRICE POINT</b>	<b>\$34.00</b>
<b>DIVIDED BY 2 FOR WHOLESALE</b>	<b>/2</b>
<b>TARGET WHOLESALE PRICE POINT</b>	<b>= \$17.00</b>
<b>LESS 15% SALES REP COMMISSION</b>	<b>x .85%</b>
<b>TARGET WHOLESALE IF WORKING W/ REPS</b>	<b>= \$14.45</b>
<b>DIVIDED BY 2.5</b>	<b>/2.5</b>
<b>TARGET COST OF CREATION</b>	<b>= \$5.78</b>

In the example I shared, the target cost of creation is \$5.78. If I can get that number lower, then my bank account will be fatter. *Winning!* If my actual cost of creation were higher than \$5.78, then I need to do one of two things (and perhaps both)...

1. Explore ways to trim my cost of creation. See pages 21-23 of this guide for a few ideas.
2. Increase the target retail price point to obtain sufficient margin.



**ONE MORE THING:** I opted for a 2.5 “profit pad” in the example shown. That’s subjective, but a personal preference of mine. You might try 2, 3 or even 3.5... the choice is yours. Through my work with makers and product designers from all along the spectrums of business experience and product category, I’ve heard over and over again that they’ve arrived at their retail price point via this formula:

**Raw Materials x 2 = Wholesale Price**

**Wholesale Price x 2 = Retail Price**

No... just, *no*. This equation leaves out labor and overhead and squeaks by on a multiplier of an intensely anemic 2. The result? You’re going to be working awfully hard for precious little money while your family and friends buy stock in vodka and Prozac with the certainty that you’ll soon need both. If you prefer a multiplier of anything other than 2.5, then simply scratch through “2.5” in the chart below and insert your preference.

### NOW IT’S YOUR TURN

<b>TARGET RETAIL PRICE POINT</b>	<b>\$</b>
<b>DIVIDED BY 2 FOR WHOLESALE</b>	<b>/2</b>
<b>TARGET WHOLESALE PRICE POINT</b>	<b>= \$</b>
<b>LESS 15% SALES REP COMMISSION</b>	<b>x .85%</b>
<b>TARGET WHOLESALE IF WORKING W/ REPS</b>	<b>= \$</b>
<b>DIVIDED BY 2.5</b>	<b>/2.5</b>
<b>TARGET COST OF CREATION</b>	<b>= \$</b>

Fact-check the TARGET COST OF CREATION that you just calculated. How’s it looking versus the actual cost of creation identified on the previous page? If it’s lower, awesome! If it’s higher, then what’s your plan for getting the numbers into alignment?

# MEDITATIONS ON VALUE

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When meditating on the value that your products deliver to that target audience, ask yourself these questions.

- How does my brand help our customers?
- How do we help make their lives richer, easier, or more stylish?
- At what price would my product be so inexpensive that the customer would question its value?
- At what price point would my product be considered expensive?
- At what price would my product be considered expensive, yet my ideal customer would still buy it?
- At what price would my product be so expensive that my ideal customer wouldn't consider buying it?
- What price point makes me slightly uncomfortable?
- Who are my competitors and what does their pricing structure look like?

**Note:** I define competitors as other brands who are in the same product category (paper, apothecary, food, candles, etc.) who are having the same discussion with their customers that you're hoping to have with your customers (how to lead a healthier life/ how to lead a more natural life/ how to lead a more decadent life/ how to live a simpler life, etc.)

Remember to observe their pricing structure, but don't let them dictate your pricing structure!

**“ The one thing that customers understand is price, and in the absence of any other perceived differentiation this is what they will use as their key selection criteria. ”**

MIKE WILKINSON



## A DELICIOUSLY BRIEF SUMMARY OF THE PRICING WISDOM SHARED IN THIS GUIDE

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- *Profit* isn't a four letter word. You work damn hard, and you deserve to make good money. The way we do that as product-based entrepreneurs is by establishing a pricing structure that includes handsome profits that reward our investment, risk, and work.
- All pricing exercises begin by determining the cost of creation for each product: RAW MATERIALS + LABOR + OVERHEAD = COST OF CREATION.
- Be certain to “plug” any leaks in the cost of creation calculations. The most commonly overlooked leaks include...
  1. Failing to account for labor expenses, especially when you're not yet drawing a paycheck for your labor.
  2. Neglecting to include rent or mortgage expenses when working from the same space where you sleep.
  3. Forgetting to include the delivery fees associated with getting raw materials to your doorstep
  4. Failing to include mandatory payroll taxes for employees in your labor calculations.
- The cost of creation is a springboard to profitability. It establishes price parameters when exploring new distribution channels/ promotions and identifies opportunities for cutting expenses.
- The real trick lies in evolving your product from a commodity to a brand and in communicating and capturing the full value of what your product delivers in dollars.
- Cliché pricing formulas shared on the internet or whispered in your entrepreneurial circles don't serve you well. There's simply no way to cut corners when it comes to establishing a successful pricing strategy.

- Pricing in the middle is an astonishingly effective way to get run over. If your final price point doesn't make you slightly uncomfortable, it's not high enough.
- You aren't necessarily your ideal customer. You shouldn't hold yourself to an artificial pricing ceiling simply because you can't imagine paying *x dollars* for a scarf/ art print/ bar of soap/ candles/ writing journal/ insert your product here. Unless you embody your brand's ideal customer, then what you'd personally pay is a moot point. Don't let it become a stumbling block!
- Establish wholesale prices before establishing retail prices... even if you don't plan to enter the wholesale marketplace at the moment.
- There's a better-than-even chance that you're offering too many products. Carefully culling a bloated collection inevitably improves your sanity while boosting profitability.
- Coupons and discounts erode value and silently strangle a brand. When planning promotions, explore strategies that add value rather than deduct dollars.
- Work to reduce the cost of creation by editing your product collection, streamlining the creative process, shopping competitively among raw material vendors, and tapping the economies of scale.
- When you raise prices, you inevitably lose customers. So be it! Serving half as many customers at twice the price point is a net positive.
- Smartly managed small businesses can expect to realize 10-15% of their annual revenues in profit. Don't let that number drive you to drink nor search for the most dramatic ledge from which to leap. See page 21 for a more thorough explanation.
- Lucky Break Consulting has developed some pretty amazing tools designed to take the sting and guesswork out of product pricing for makers and product designers. Case in point: my [Price-O-Matic](#) software and [one-on-one pricing review sessions](#).



## HELLO THERE! HAVE WE MET? I'M LELA.

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And I'm pretty convinced that entrepreneurship is coded into my DNA. My grandfather was born dirt-poor, one of thirteen kids, in East Tennessee. He left home as a young boy with nothing to his name but a third-grade education and heaps of tenacity. He was the quintessential bootstrapper back in the day, amassing a tidy little empire: a gift shop, a restaurant, a suburban housing development, and a thirty-foot tall statue built piece-by-piece at his kitchen table. *No, really.* Pop died a wealthy man- a fan of fedoras and Cadillacs- and some of my earliest (and fondest) memories involve perching on his lap as he preached about the value of hard work and taught me the importance of dreaming big.



I spent my childhood inventing new board games, slinging Thin Mints with my Brownie troop, and erecting the best damn lemonade stand in the entire neighborhood. By high school, I was hosting my own cable access show, passing out business cards and spending weekends in cities all around the South, competing as a nationally ranked extemporaneous speaker. Cool? *Not exactly.* Driven? *Most definitely.*

My life took some interesting turns and I found myself in the midst of a messy divorce at the tender age of 25. With two toddlers in tow, I moved into my mother's spare bedroom, choking down more humble pie than I ever thought possible. They say that necessity is the mother of invention, and truer words have never been spoken. I founded my first company to keep the lights on while I looked for a "real job." More than a decade later, I still haven't found that job, but I have amassed more than \$10million in product sales.

Today, I enjoy a degree of success that I could never have imagined when I founded that first company as a single mom. The kind that's reflected in a well-worn passport, the freedom to design my future and the confidence of knowing that I can achieve absolutely anything I put my mind to. These days you'll find me guiding product designers and makers-on-the-move as they navigate [product pricing](#), [wholesale strategy](#), and [brand development](#). I launched my consulting company to support the maker community by sharing all the hard-won lessons I learned on this journey.

Lucky Break is the embodiment of everything I wish I had known when I founded my first company. It's an opportunity to avoid the pitfalls, frustrations, and resource drains that too often ambush the journey. It's a chance to get things right the first time or reinvent what's not working and build a brand with strong architecture at its core and a gorgeous vision to share with the world. I created these products and services because I'm intimately familiar with the kind of work you do, and I know how to make that work more efficient, less painful, and heaps more rewarding.

I invite you to pour a mug of something yummy and explore the opportunities I've created to [reduce your stress and boost your bottom line](#). I'll be cheering you on!

## CURIOS ABOUT THE CALIBER OF MY WORK?

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I've known Lela Barker as a businessperson for over a decade. She runs a complex business and makes it look easy. It's not. Growth year after year is not a fluke. She's an excellent strategist with a quick mind and a gentle soul. Learning from her is always exciting, interesting and useful. You won't be disappointed and you won't be bored!

**ANNE-MARIE FAIOLA • Brambleberry: Washington**



Lela Barker will change your life! I feel honored and blessed to have access to so much information and I've never been so inspired to push towards greatness in my business.

**TAMARA LEWIS • Zandra: New York**

I rarely endorse anyone in such a public way, but I have to give a shout-out to Lela. Both myself as a person, and my company, are transformed in ways I had not even suspected could be possible for a small town single mom with an enormously crazy dream. Lela is a natural born leader, mentor, and an all-around good egg. Razor sharp and on point 100% of the time. Plus she is really, REALLY funny. The boost in my sales because of Lela's advice has already covered the cost of her course. If you're on the fence about anything Lela has to offer - pull the trigger.

**LISA THORSTENSON • Cloud Nine Soap Co.: Wisconsin**



Lela, you are a force. I am forever grateful for all that you have done to help shape this little business of mine. You have answers to many questions from the ridiculous to the sublime. You are honest about your experiences and transparent for new business people to have an honest look into "how it should be." Your no-nonsense approach to business and positive outlook is contagious. I would not be here today in this way if it were not for you.

**KARA BROOK • Waxing Kara: Maryland**

Every time we meet, I learn new and exciting ways of doing business. From driving more customers to my site and the best ways to keep in contact with customers, you consistently bring fresh ideas to the table that propel my business forward. I cannot thank you enough for all of the support and knowledge throughout the years.

**TERI PRINGLE • Blue Flour Best Baked Goods: South Carolina**



**LEARN MORE ABOUT HOW I CAN HELP BUILD YOUR EMPIRE AT  
[WWW.LUCKYBREAKCONSULTING.COM](http://WWW.LUCKYBREAKCONSULTING.COM)**