



CRAFT SHOW SUCCESS

Chapter 6:
Pricing for profit and covering your business financially and legally

I was die-hard numbers hater for most of my life. I nearly flunked out of algebra in high school. I'd spend the first 15 minutes of class listening carefully, but it just didn't make sense to me. Then I'd give up and scrawl angsty 15-year-old poetry in the margin of my textbook. It took two math tutors and many long nights toiling over formulas and equations at the dining room table, but eventually I understood algebra just enough to pass the class.

Years later, when I started my handmade business, I had to start using spreadsheets and Quickbooks. That feeling of anxiety and confusion from algebra returned. I felt like an English-speaking tourist in Japan armed with only a French-to-English language translation book. Luckily, I had a patient friend who explained things using real world examples and diagrams until I got it.

A lot of creatives I know struggle with numbers and the “non-creative” aspects of their businesses the same way that I did (and sometimes still do). Figuring out your expenses, income and profit as well as the legal aspects is essential if you want to run a successful business and it is just as important as the creative parts of what you do. I could write an entire book about the financial side of business but for this course we'll focus on finance as it relates to selling at craft shows. Step one is answering the question I hear most often from makers, “what should I charge for my product?”

First, let's define a few terms:

Expense: This is the money you spend whether it's buying physical goods or paying for services (like your or an employee's time).

Income: This is the money you get in return for the product you sell.

Profit: This is how much money you get to keep out of your income after you subtract your expenses. $\text{Profit} = \text{Income} - \text{Expenses}$

Wholesale price: This is the price you would charge a retail store for your product, which the retailer will then mark up before selling it directly to a customer. The wholesale price is generally 40-60% of the retail price.

Retail price: This is the price you sell your product for when you're selling directly to a customer, i.e.: the price of your product at a craft show.





WHOLESALE VS RETAIL PRICING

Since we're focusing on retail pricing for craft shows I won't go into detail on selling wholesale but it is extremely important not to sell your products at craft shows at your wholesale price. A craft show is a retail environment, meaning that you're selling directly to the customer, not to a shop owner who will mark it up and resell it to their customers. If you do have wholesale accounts, selling your goods at a craft show for half of what a customer would pay for them at a store not only sullies your relationship with the store but also hinders customers from buying your product at the store since they can get it cheaper at the craft show. You may be wondering how a shop owner or customer would find out about this pricing discrepancy. The handmade community is small and chances are that if your customer is shopping at a local craft show they're also shopping at a local independent store. Also, shop owners often head to craft shows to seek out emerging designers. If a shop owner finds you at a craft show but your wholesale price and the price you're charging at the show are the same or similar, they won't want to place an order since they'd need to at least double the wholesale price.

HOW TO DETERMINE THE RETAIL COST OF YOUR PRODUCTS

My business partner and I produce a conference for makers and creative entrepreneurs called Craftcation. On the last day of Craftcation we have roundtable sessions where attendees sit down at a table with an expert on a topic and ask questions. For the past few years I've led a pricing roundtable. I hear the same questions year after year, "are my prices too high?" or "are my prices too low?" or "how do I figure out how much to charge for what I make?"

There are a whole slew of emotional issues that surface for creatives regarding money. Lots of us hold onto our notion of the starving artist. We think that in order to be an authentic creator, we shouldn't be thinking about money. Or we don't feel confident about what we make and don't think it's worth the price that we want/need to charge. Or we don't have faith that consumers will want to pay what we're asking for because other mass-produced products are cheaper. If you're holding onto the ideal of the starving artist, LET IT GO! This is not a hobby, it's your job and you need to be paid for it. Even if it's not your main job, your work is valuable and you shouldn't give it away for free. And underpricing your products doesn't just hurt you, it affects everyone. (More on that later.)

Figuring out what to charge for your product is not a guessing game. It's not about what you think someone may pay for your product or how much you feel it's worth. Determining your pricing is about numbers, not feelings. There's a pretty simple pricing formula that you plug your specific costs into to figure out what to charge for what you make.

PRICING FORMULA:

Labor + Materials x 2 = wholesale price

Wholesale price x 2 (for overhead and surplus) = retail price

Seems pretty basic, right? It is and it isn't. Finding and sticking to the cost of your labor and materials is what tends to be problematic for makers.

THE COST OF LABOR

The cost of your labor is the money you pay someone or yourself for the time it takes to make your product. Whether you're paying yourself or an employee for their labor, the wage needs to be fair. Underpaying yourself to bring down your cost is big NO-NO! First you're not valuing your time and second if your business grows and you need to hire someone to do what you do, you need to be sure that you can pay them enough or you'll have to raise your prices to offset the new labor cost. Figure out how much the labor is worth per hour, and then divide that by how long it takes you to make your product. We'll use screen printed t-shirts as an example.

For example:

If you can make four shirts in an hour and you want to be paid \$20 per hour then your labor cost per shirt is \$5.

When you figure out how many shirts you can make in an hour, don't just count the time it takes you to screen print the shirt. You have to include time for all labor associated with making the shirt. This means the time it takes you to set up and break down your screen printing station, create and add labels and tags to the shirt, and any other things that you have to do to the shirt before it's done.



THE COST OF MATERIALS

Makers often overlook hidden costs when determining what they pay for materials. Using shirts as our example, you can't just say a shirt costs you \$5 to buy so your materials cost \$5. You have to consider EVERYTHING you need to make that shirt, like screen printing ink, screen printing screens, care label, your label, hangtag, thread to sew labels, etc. There may be other hidden costs for your product as well. Examine every item you use to make the finished product and don't leave ANYTHING out! Don't fall prey to the notion that you only use a tiny bit of thread for each shirt and not add thread to the materials list. Don't fail to add in shipping costs of getting the shirts to you, or your time, gas and mileage to pick up materials. It all adds up!

For example:

Materials cost for one shirt:

Shirt \$5

Thread .10

Care label .25

Hangtag .30

Ink .35

Shipping costs .60

Gas, mileage and time picking up materials .40

Materials cost = \$7

OVERHEAD + PROFIT OR WHY WE MULTIPLY LABOR + COST BY TWO

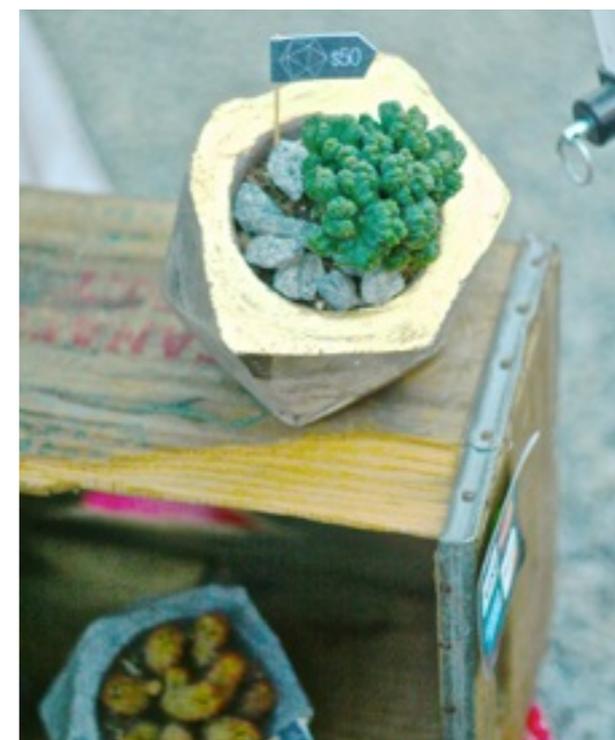
Perhaps you're wondering why we multiply the cost of labor and materials by two. Aside from the cost of your materials and labor, you need to factor in your overhead (general business expenses) and surplus (profit/unexpected expenses fund). Multiplying the cost of labor + materials by two should cover both of these. Click [HERE](#) to download a resource list of some general business expenses. (You can also download it at the end of the chapter.)

Pretty length list, huh? There are probably some things in there that you didn't even think about. Some of the costs listed may apply to your business and some may not. You may have other things to add that are specific to your type of business. If your general business expenses (also called operating costs) are high or you want to considerably build up your surplus for unexpected expenses/profit/retirement, you may want to consider multiplying your labor + materials cost by 2.5 or even 3 instead of 2 to make sure these costs are covered.

PLUG YOUR NUMBERS INTO THE PRICING FORMULA

Now that we've determined the true cost of our labor and materials, let's plug them into our pricing formula.

\$5.00 (Cost of Labor)
+ \$7.00 (cost of materials)
= \$12.00
x 2 (overhead + surplus)
= \$24.00 (wholesale price)
\$24.00 (wholesale price)
x 2
= \$48.00 (retail price)



PAYING THE MAN AKA SALES TAX

First off, I am NOT a tax lawyer or an accountant but I do know a bit about taxes from running my own businesses for over a decade. If you're working for someone else, paying your taxes isn't that hard to navigate, but when you're a business owner there are tons of laws and regulations and if you don't know about them you could be inadvertently breaking the law. Since tax laws vary between countries and states, I suggest you do some research and find out how much sales tax to collect, when to collect it and when you need to pay your taxes.

My experience with taxes is based in California and most states have a similar but different set-up. Basically, when you sell your product to a customer you need to add on a specific percentage i.e.: the sales tax rate (which varies state to state). Then you need to send all the sales tax you've collected from your customers to the government. In California, those payments can be monthly, quarterly or annually. Every state except for Alaska, Montana, Oregon, New Hampshire and Delaware requires businesses to collect sales tax.

The state of California regulates these sales taxes through seller's permits obtained through the State Board of Equalization. California's State Board of Equalization requires that any person who sells or leases any tangible property (i.e.: products) whether retail or wholesale must obtain a seller's permit and collect and pay sales tax. Getting a seller's permit is free, but of course you end up paying down the road since this is the government's way of keeping track of businesses and making sure they pay their taxes. If your business is based in and sells retail in California, check out the State Board of Equalization's website here: <http://www.boe.ca.gov/>.

To make it even more complex, the sales tax rate within California varies between counties. You can go here <http://www.boe.ca.gov/cgi-bin/rates.cgi> to find out what the sales tax rate is in the county you're selling in. When you submit payment to the Board of Equalization you'll have to note not only the total amount of your retail sales but also what counties you made the sales in. If your business is based somewhere else or you sell in other states, reach out to your local government tax agency and ask for help. You'll also have to declare and pay taxes on all of your sales (income) on your yearly income tax. If all of this sounds complicated, you may want to consider hiring help. You can hire an accountant to help you with your taxes or seek the help of a financial advisor that knows the ins and outs of finances for creative businesses like Lauren Venell.

NOTE: If your state requires that you collect sales tax from your customers, you must count the tax you collect as income but then be sure to subtract it as an expense on the craft show income and expense worksheet at the end of this chapter.

Let's look at an example of how to add on sales tax if you were selling a shirt at a craft show in San Francisco, Calif., where the tax rate is 8.75%.

\$48 (retail price of shirt)
x 8.75% (Sales tax rate in San Francisco)
= \$4.20 (sales tax for the shirt)

Now you have to add the sales tax onto the retail price of your shirt like this:

\$48 (retail price of shirt)
+ \$4.20 (sales tax)
= \$52.20 (total retail price)

You can use this same formula for other counties and states. Just replace the tax rate (8.75%) in the example with the sales tax rate for your area.



PERMITS + LICENSES

Much like taxes, the permit or license requirements from the government varies between countries, states and counties. In the United States you'll need a business license to start and operate a business (even if that business is just you making things at your kitchen table or on your couch and selling what you make). Contact the business license office in your city for details. When they review your application, one of the things they'll investigate is if the area your business is located in is zoned for your type of business. If it isn't, don't freak out! Often cities can issue conditional use permits as an exception to that rule.

Depending on what you make, you may need additional permits. If you make food or drink products, you'll likely need to get a permit from the health department as well. The Cottage Food Law that passed in 2013 makes it easier for certain types of food businesses that don't produce in a commercial kitchen to get a permit from the health department. You can check out information here: <http://www.cdph.ca.gov/programs/pages/fdbcottagefood.aspx> to see if your business qualifies. You may also need a fire department, air and water pollution permit or county permit. The best place to find out what you need is by contacting your city's business license department.

Some cities also require vendors to have special one-day event permits. Hopefully show producers will let you know what permits or licenses you need to have in order to sell at their event. Most shows don't ask for copies or proof that you have a business license or sellers permit. Some shows do. It's a good idea to have all of your tax and business documents in order just in case you are asked for them. You don't want to be scrambling to get a permit at the last minute or have to send it in after the show's deadline.



ADJUSTING YOUR PRICING

If you feel that the price of your product is too high, don't arbitrarily knock a few dollars off. Instead, look for areas to cut costs. Remember your cost is made up of two things: labor and materials. We'll start with ways to lower your labor cost.

HOW TO CUT LABOR COSTS:

1. Streamline your production process so that it takes less time to make your product.

The reason that large companies produce items using an assembly line is that it takes less time to repeat the same motion or action over and over than it does to switch actions and do each step of the process in order one at a time. Using our screen printed t-shirt example, you'll save time if you print all the tags in one sitting instead of printing a tag and then sewing it on. You may also be able to adjust your production or actual product to make it take less time. If your t-shirt has a four-color print on it, maybe you could do the print in only three colors (which would take less time) but still hold onto the essence of the design. Be careful with adjustments like these, because you don't want to sacrifice the uniqueness and integrity of your product.

2. Hire out.

If you make all your products and pay yourself \$20 an hour, you may be able to find someone else to make them for less. If you do hire out, be sure you're paying a fair wage and that you'd be able to hire someone else for the same wage if needed.

HOW TO CUT MATERIALS COSTS:

Cutting materials costs is sometimes easier than cutting labor costs but requires some research. Let's look at our materials cost from our example:

Materials cost for one shirt:

Shirt \$5

Thread .10

Care label .25

Hangtag .30

Ink .35

Shipping costs .60

Gas, mileage and time picking up materials .40

Materials cost = \$7

If you create your hangtags or labels yourself, it might be cheaper to outsource them to a company that creates custom labels or hangtags. Get creative and think of alternative options for hangtags like making your hangtags out of business cards and having them printed in bulk. Just be sure that these changes fit within your branding. Most companies offer discounts for ordering in bulk. If you can't meet their bulk minimums, consider reaching out to your network and combining your order with theirs to get cheaper pricing. If the company you order your materials from is near you, it may be cheaper to pick up your order instead of having it shipped. If you're resourceful and research diligently, you'll likely be able to cut your materials costs.



UNDERPRICING YOUR PRODUCT AFFECTS THE WHOLE COMMUNITY

Underpricing your products doesn't just hurt your business. It affects other handmade businesses and the entire independent business community. Setting your pricing lower than you should devalues your product and makes correctly priced products seem expensive. Most customers who seek handmade goods know that they'll cost more than mass-produced products and they are ready to pay a little more for something unique, handmade and responsibly made. Some customers don't understand what goes into making a product. This is your chance to educate them by explaining your process, what makes your product unique and the time, effort and care that goes into each one. Even if your business is not your full-time job you need to price your products correctly, not just because underpricing sends the message that handmade goods aren't worth it, but because making and selling what you make could become your only source of income at one point.

If you price your shirt at \$15 even though your calculations say it should be \$48, customers will wonder why shirts made from other makers who correctly price their goods are more expensive. They may also wonder why yours are so cheap and question the quality or integrity of them. Don't lower your prices just because your products aren't selling. If you're continually hearing that your goods are too expensive, revisit how to adjust your costs or consider the venue you're selling at. Perhaps there's another venue that's a better fit for your price point. Never look at your price and ask if you would be able to afford it, unless you are your target demographic.



DISCOUNTS, SALES AND DEALS

If you've done at least one craft show, chances are you've experienced a customer asking for a discount. If you're just starting out or the show is slow, it's tempting to say yes when someone asks you to knock a few bucks off your price. I advise against it. Remember that your price isn't just a number you pulled out of thin air, it's a non-negotiable amount of money determined by the pricing formula. If you offer a discount it makes it seem like your product isn't worth the original price you asked, and you'll no longer be covering your costs. If in your pricing formula you multiplied your cost by 2.5 or 3 instead of 2, you'll have a little wiggle room for offering discounts or deals to customers.

There are a few ways to get around this and offer customers a deal. One way is by having a discount for multiple purchases. If your retail price for your shirt should be \$48, set your price for one at \$50 and then offer a discount of two shirts for \$96. That way you're not losing any money with your discount but your customer still feels like they're getting a deal for buying two.

Another option is to have a sale bin. Your sale bin is the perfect place for items with imperfections or things left over from last season. Did the screen print come out slightly off on a shirt? Throw it in your sale bin! Do you have just two shirts with a design that you're no longer printing? Sale bin! Revisit the chapter on displays and merchandising for tips on placement of sale items in your booth.



ACCEPTING DIFFERENT FORMS OF PAYMENT

CASH

Most vendors prefer accepting cash. I totally get it. The money is in your hand right away, no waiting for a credit card processor to transfer it to you or adding a trip to the bank to your errand list. The only drawback to cash is that you need to be diligent about your record keeping. It's easy to take a cash payment and slip it into your apron and forget to write it down. If a customer gives you a large bill, have a counterfeit detector pen on hand and make sure it's good. Getting counterfeit money doesn't happen often, but better safe than sorry.

CHECKS

If you're comfortable accepting checks, be sure to get a phone number, driver's license number, and current address and email address for the customer. Getting all of this information won't guarantee that their check is good but it will help. I've taken checks that have bounced and called the customer and they apologized and sent me a new check. I've also had checks bounce and was never able to get a hold of the customer. I don't like to advertise that I take checks. This allows me to feel a customer out. If a customer is rubbing you the wrong way or you get an off feeling about them and aren't comfortable accepting a check from them, DON'T DO IT.

CREDIT CARDS

In the chapter on merchandising and displays, I mentioned the importance of accepting credit cards and that over 75% of my craft show sales were credit card purchases. If you aren't set up with a credit card processor, look into something with no commitment that only charges a per transaction fee like Square. PayPal also offers a card reader so that you can process credit card payments on your phone or tablet while you're at a show. If you aren't able to digitally process credit card transactions (due to lack of Wi-Fi, cell service, electricity, etc.), you can write down the customer's credit card information and process the transaction when you get home. I strongly advise against signing up with a credit card processing company that makes you sign a contract or has a monthly fee. Processors like this tend to have lower per transaction fees, however the monthly fees add up quickly and it's pretty much impossible to get out of a contract with them. Even if you are able to wiggle out, they usually charge a hefty early termination fee.

TRADE

It's pretty common for fellow vendors to sneak in a little shopping while they're vending at a show. They may want to trade something they make for one of your products. Trading with vendors can be a great way to shop without having to spend any money. BUT it can also put you in a uncomfortable situation if you're not into what they make, if you make an uneven trade or if you trade something that you could have sold and then kick yourself when a paying customer asks if you have an item in a size or color and you've just handed it over to another vendor.

Trading tips:

1. Make sure it's an even trade. The items should be the same price. If not, one of you needs to pay the difference.
2. Don't make a trade for something you wouldn't have paid for. It's hard to tell someone that you don't want their product. Find a tactful way to decline the trade by saying something like, "your necklaces are lovely but I don't really wear jewelry."
3. Make sure the item you're trading isn't something that you'll be disappointed to have not gotten cash for.

KEEPING TRACK

Accurate record keeping of your craft show expenses and income is essential to determining if the show was worth it. Write down EVERY single sale in a receipt book. You can buy a receipt book at an office supply store like Staples or Office Depot. I suggest the kind that makes a carbon copy so that you have one for yourself and one for the customer. You can also just write transactions down on a scrap of paper. One of the great things about getting set up with an online shop platform like Shopify is that you can record sales on your phone and it changes the available stock in your online shop. However you keep track, it's a good idea to have your contact information on the receipt so that the customer can contact you to order something else or refer you to a friend. It's easy to customize your receipts with a sticker or stamp (see the resource list at the end of this course for suppliers).

What to include on your receipt:

- Business name/logo
- Phone number
- Website
- Email address

When a customer makes a purchase, I ask them if they want to be included on my newsletter list and if so, I write their email address on their receipt. The day after the show I go through my receipt book and add the new subscribers to my newsletter list. Being as detailed as possible on the receipt will help you keep track of your inventory as well as what customers are buying more of. You may notice that you sell more size smalls at a certain venue or that in the fall, you sell more black shirts than any other color. This information will help you prepare for future shows by stocking up on smalls before certain shows or particular colors during specific seasons.

It's not just important to keep good records of your income at a show, but also to write down all of your expenses associated with it as well. Download the craft show income and expense worksheet at the end of this chapter and fill it out for every show you do. Reviewing your income and expense sheets at the end of every quarter as well as reviewing your quarterly sheets once a year lends insight into which shows you should apply for the next season or year.



DID I REALLY MAKE MONEY AT THE SHOW? ASSESSING PROFIT AND LOSS

I remember coming home from one of my first experiences vending at a craft show and feeling great. I'd calculated my sales, which were \$200. The booth fee was \$100. I thought I'd made \$100. Sadly, I was wrong. I'd failed to account for all the extra expenses aside from the booth fee that I incurred selling at that show. Once I added up all those extra expenses, like my wholesale price, application fee, time at the show, parking, the cost of my products and lunch, I realized that not only had I not made money but I'd lost money! If you don't add in ALL of your expenses you won't be able to assess if the show was worth your time and money.

I included the most common expenses on the craft show income and expense worksheet at the end of this chapter, but you may have others specific to your business or the show to add on. You'll also notice that I included some items that you'll reuse for other shows, like your displays. You'll need to amortize expenses like this that you buy once and use multiple times. Amortizing is writing off the initial cost of something over time. For example if you buy a pop-up tent and it costs \$100 and you estimate that it will last a year and you're doing 10 craft shows that year, the cost of the tent per show will be \$10. Sometimes it's hard to get an exact cost per show for amortized items so just estimate it as best you can. Let's analyze three examples of a filled out craft show income and expense sheet. All three examples are from the same vendor at the same show but each example shows how the expenses, income and profit vary depending on the amount of the vendor's sales.

Example A:

2,175.00 (income)
- 1,495.00 (expenses)
= 680.00 (profit)

Example B:

Example B shows what your income and expenses would be for that same show if you sold half the amount as you did in example A.

1,087.50 (income)
- 907.50 (expenses)
= 180.00 (profit)

Example C:

Example C depicts the same show if you sold a quarter of what you did in example A.

543.75 (income)
- 613.75 (expenses)
= -70.00 (loss)

Don't let it get you down if you end up with a loss at the end of a show like in Example C. This is common for vendors who are just starting out. Remember that you multiplied your expenses (labor and materials) by 2. That extra money is to cover your overhead and surplus. So even though you were at negative \$70, you had accounted for \$125 for overhead and surplus so you not only covered your materials and labor but also have \$55 left over to put towards expenses and surplus.

It's also important to think about the non-monetary benefits you may get out of doing a craft show that might make the \$70 loss worth it. You might have gotten some useful feedback on your products, or perhaps you gained some valuable experience talking to customers.

On the right hand side of the worksheet you'll notice some items under "Other returns on your investment." These are things like potential wholesale accounts, new regular customers or networking. It's difficult to place a monetary value on networking but it's important to consider rewards aside from money that you get from a show. If you end up with a loss but consistently get new wholesale accounts, get to know great contacts or grow your mailing list you may want to do the show again.

Remember how I almost failed algebra? Running my own business changed me from a die-hard numbers hater into a die-hard numbers lover. When I first started out I gave very little thought to the business side of my business. I determined my prices without using a formula and didn't even get a business license! But my business ended up growing and thriving because I implemented the things I learned along the way. The reason that I finally started not hating the numbers side of business is that instead of formulas being intangible like they used to be, numbers actually meant something.

I've been trying to convince my dad, who has owned his own business for over 30 years, to start using an accounting program like Quickbooks since I began singing its praises over a decade ago. A few months ago he got a new computer and Quickbooks and I helped set him up with his business on it. The feeling of being able to teach someone something that was once foreign to you and is currently foreign to them is amazing! I drew charts and graphics to explain what each account and transaction represented and after a few weeks he was as hooked as I am on using it.

