

INCOME GOALS

Before you set prices on your products, ask yourself what you want to earn from your artistic business. Take into consideration your living expenses, business expenses, and build in some **margin*** for rest and rejuvenation (it's nice to be able to take a vacation).

It's OK to aim for an income target that just pays for supplies for your artistic practice. Not wanting to make your artistic practice your main source of income is totally valid. Just make sure you're setting income goals that allow you to break even.



BASICS OF BREAK-EVEN POINTS

Break-Even Point: The volume of sales at which your net sales exactly equal your costs.

Profits = Revenues - Costs

Or

Profits = (Number of units sold * price) - Costs

How much do you need to sell in order to cover all of your costs (expenses): **fixed***, **variable*** and **discretionary***, **direct*** and **indirect***? For artists, the trick is often in figuring out what constitutes a "unit". Is it a painting? A poem or a short story? A piece of music? An item of jewelry or pottery? Or is it an hour of time?

CALCULATING BUSINESS COSTS

CALCULATING COST OF PRODUCTION

Knowing what it costs to produce your work can give you a foundation for setting prices. The “LMOP” formula can be used to calculate wholesale price. Wholesale price is the cost to produce your work plus profit margin.

L **LABOR** is calculated as a dollar amount per hour of work. This might be your time or an employee’s.



M **MATERIAL** is calculated as a dollar amount. It represents the direct cost of materials that end up in the finished product.



O **OVERHEAD** is calculated as a percentage of your Labor + Materials. These are costs that do not physically end up in the finished product but are necessary in the process of producing the finished product.



P **PROFIT** is calculated as a percentage of your Labor + Materials + Overhead. This ensures your business can grow over time.



Profits may be used for:

- ✘ Competitive pricing
- ✘ Savings and bonuses
- ✘ Reinvesting in your business

Examples

Labor: Hire an assistant

Materials: Buy in bulk or when pricing is best

Overhead: More efficient equipment

CALCULATING COST OF PRODUCTION

Overhead is a term for expenses that keep your business running but don't end up in the final product. When calculating wholesale cost, overhead is expressed as a percentage of the cost of production during a specified timeframe. One method of accounting for overhead in production costs is by dividing indirect costs by direct costs.

INDIRECT COST is anything that doesn't end up in the final product but is necessary for its production. Examples: studio rent, utilities, paint, child care

DIRECT COST is anything that does end up in the final product and is necessary to production. Examples: labor (yours or employees), materials

$$\text{INDIRECT \$} / \text{DIRECT \$} * 100 = \text{OVERHEAD\%}$$



HOMework ASSIGNMENT 2: CALCULATE YOUR OVERHEAD PERCENTAGE.

PART 1: Calculate your overhead for the following timeframes.

1 MONTH



3 MONTH



6 MONTH



1 YEAR



**Make sure the time period for your Direct and Indirect costs is the same, otherwise your overhead will not be accurate.*

PART 2: Pick two of your products and calculate the overhead for each. Different products may have different overhead costs. You may find a product is expensive to produce, which forces you to raise prices to a level that doesn't fit your target market. Regularly evaluating overhead costs can help you streamline your product offerings and pricing.

<p>PRODUCT 1: _____</p> $\frac{\text{Indirect \$:}}{\text{Direct \$:}} \times 100 =$ <div style="border: 1px solid #0070C0; border-radius: 15px; padding: 5px; width: fit-content; margin: 0 auto;"> <p style="margin: 0; text-align: center;">% Overhead</p> </div>	<p>PRODUCT 2: _____</p> $\frac{\text{Indirect \$:}}{\text{Direct \$:}} \times 100 =$ <div style="border: 1px solid #0070C0; border-radius: 15px; padding: 5px; width: fit-content; margin: 0 auto;"> <p style="margin: 0; text-align: center;">% Overhead</p> </div>
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TRYING OUT THE FORMULAS

Let's say you're a choreographer working on a new piece. (For the sake of simplicity, let's say there won't be a full performance.) You'll need to add up your Labor (or what you're paying yourself hourly), your Materials (in this case, rehearsal space for this piece, any music you might need to purchase), and Overhead costs (childcare while you rehearse). You want to be able to grow your choreography business in the future, so you'll want to build in some Profit Margin; let's start with an assumed 15% and adjust as needed.

**Remember PEMDAS for order of operations: parentheses, exponents, multiplication, division, addition, subtraction.*

First, we'll need to find the Overhead percentage. Start by adding your Labor and Material costs together.

L + M

L\$320 + M\$80 = \$400

Divide your Indirect costs by your Direct costs.

<p>Indirect Cost: \$135 (9 hours of childcare at \$15/hour)</p>	= .3375
<p>Direct Cost: \$400 (Labor + Materials)</p>	

Multiply the decimal by 100 to get the percentage.

$$.3375 * 100 = 33.75\%$$

Overhead percentage may change depending on what time period you chose to track (busy periods vs. less busy), what product you're creating and how much materials cost, or utility costs that fluctuate.

Here's where we stand so far:

L \$320 (8 hours of work at \$40/hour)

M \$80 (8 hours of rehearsal space at \$10/hour)

O 33.75%

P 15%

You've already found the sum of your **Labor** and **Materials**.

L + M

$$L\$320 + M\$80 = \$400$$

Next, find a dollar amount for your **Overhead** percentage.

(L + M) * O

$$400 * .3375 = O \$135$$

Add the **Overhead** dollar amount to the sum of your **Labor** and **Materials**.

(L + M) + O

$$\$400 + \$135 = \$535$$

Find a dollar amount for **Profit Margin**.

[(L+M) + O] * P

$$\$535 * .15 = \$80.25$$

Add the **Profit Margin** dollar amount to your **Labor**, **Materials**, and **Overhead** dollar amounts.

$$\$535 + 80.25 = \$615.26$$

Congratulations! You've arrived at the **Wholesale Price**. But wait! There are more costs associated with selling a good or service. When you're at the store, the price tag on the shelf is not how much it costs to produce that item. That's the Wholesale Price plus the Retail "LMOP".



PSYCHOLOGICAL ASPECTS OF PRICING

PRICE POINT is the amount of money a customer is willing to pay within a certain range. It's influenced by demand, competition, and perceived value. One psychological tactic of pricing uses Weber's law: "a just-noticeable change in a given stimulus appears as a constant ratio of the original stimulus." In pricing, it's the amount one can change prices before the customer notices, either positively or negatively. The higher the initial price point, the easier it is to increase the price by small increments.

For example, an artist produces a one-inch button with one of their designs and sets the price at \$1.00. A customer loves them and buys three. That customer comes back the next week to buy more, and, because they're popular, the artist has raised the price to \$2.00. The customer thinks that's too much of an increase and doesn't buy the button. However, if a customer purchases a vase for \$1,000 and the artist offers to create a custom stand for the vase for an additional \$250, that's psychologically easier for the customer to justify than the \$1.00 price increase on buttons.

PERCEIVED VALUE is a person or group of people's opinion of what they think a product's value is. You can raise or lower the price of your products, but that may not change the value of the product according to your potential customers.

Examples of Factors That May Impact Perceived Value

TRENDINESS: Products that are connected to popular trends and group behavior can be perceived as more valuable.

SCARCITY: Limited edition, scarce, and exclusive items can have added value even if the scarcity is fabricated or not real.

NOSTALGIA/SYMBOLISM: Items that appeal to the consumer's emotional attachments to meaningful moments (history, place, people, etc.) have higher value.

NECESSARY ADD-ONS: Products that complement and enhance an existing product may be priced at a premium, e.g. framing services, offering appropriate hanging fixtures.

EXERCISE 3: PERCEIVED VALUE EXAMPLES

What are some examples of perceived value inside and outside of the arts market?

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If perceived value is the opinion of the consumer, then **ADDED VALUE** is the mechanism by which you create the perception of higher value. **ADDED VALUE** is any addition to a product or service that has a high perceived value-to-cost ratio. Some examples of added value are packaging, companion pieces, backstories, future discounts, loyalty points, membership, or personalization.