GETTING THE PRICE RIGHT

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Every designer and manufacturer shares Goldilocks' dilemma: how to make sure their product is priced not too high, not too low, but just right.

by

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Karen Good of Michael Good Designs, in Camden, Maine, once asked an industry mentor for advice on pricing. "He said he sat down, figured out the costs, and added the formula for overhead," she recalls. Once he had a price, he would "look at the piece and say, `Umm, too much,' or `Umm, too little,' and adjust it." Although Good was dubious about the value of the advice, that, in a nutshell, is just about how many manufacturers determine their prices.

In any piece of fine jewelry there are three hard, inescapable costs: metal, labor and, frequently, gemstones. The cost of stones in particular can be a significant factor in the final price of a piece. In fact, when gemstones are used, metal cost is often secondary, says Phyllis Bergman, president of Mercury Ring Corp., an Englewood, New Jersey, manufacturer of semi-mounts. "The diamonds in the semi-mount determine the price point," she says. The small stones set in the semi-mount, in turn, may be only a small part of the final retail price once the center stone is set.

The quality of the stones, as well as their size, contributes to the price the piece sells for. At Jacor Products Group-Jabel, Inc., in Irvington, New Jersey, the company may use only the top five percent of the stones suppliers show them. "We try to maintain high-end color," says Jacor president Lyle Rose. As a result, "my prices are a little pricier than

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comparables, but when you look closely, there's a difference in the quality of the materials."

Labor is often a less visible cost than metal and stones. Direct labor costs include stone setting, shooting waxes, spruing, investing, casting, and clean up. Because these costs can vary, and are usually spread out across many mountings, small or inexperienced manufacturers and designers may ignore them, forget to add them into their price, or not add enough to cover them. If there are stones present, for example, the most obvious type of labor is setting. In calculating the setting costs, though, the manufacturer must keep in mind that setting charges vary by setting style, such as prong, bezel or pavé, and stone types. While diamonds are usually standard in shape, colored gemstones can be slightly out of shape or lumpy, adding to time and labor costs in the setting process. Very fragile stones, such as emeralds, may also involve extra setting costs.

While the direct labor in the production of a piece of jewelry is unlikely to escape the notice of experienced manufacturers, one of the biggest hidden costs in manufacturing is product development, explains Rose. From idea to artist rendering to model-making to dies, "it's a great up-front expense," he says. "Hopefully, you can turn enough units to make a profit."

Bob Lynn, of Lynn's jewelry in Ventura, California, who manufactures his own designs, agrees. For example, he recently designed a piece that requires a very expensive die. Pricing the pieces at $300 each, "I have to sell 300 pieces just to recoup the die, and another 250 pieces to recoup the material in the first 550 pieces," he says. "That is my break-even point."

Then there are costs that are even less obvious than product development. These are a manufacturer's overhead: utilities, rent, taxes, bookkeeping, office supplies,

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postage, consumables (such as wax, investment, burs, buffs, and other equipment), and computer costs and maintenance, among others. “Every time somebody has to touch a piece of paper or go into the safe, it costs money,” says Rose. These costs must be redeemed by the markup you put on your goods. If your markup is too low, you might quickly find yourself in the red.

There are different ways of accounting for those costs. “[Those costs are] pretty much taken out of the hourly wage that I charge,” says artist-jewelry Sara M. Sanford, of Portland, Oregon. “[But] I know that some of my peers add 10 to 20 percent into their prices to cover that.”

To see if you’re making enough, says Bergman, add up all your expenses for the previous year: cost of goods (metal, stones, findings), payroll, supplies, equipment, utilities, rent and so on. Then figure your projected sales (based on previous experience) at a certain markup. If the projected sales figure is less than what you project your expenses will be, you have to increase your markup. “The only thing that changes that is the number of turns you get on your goods,” says Bergman. “Sometimes [a higher turnover rate] works out better than a higher markup.”

Most people say they use some type of formula to figure their markups, but they also agree that the “formula” markup is not usually applied evenly to every piece of jewelry in their lines, or even to every component in a piece of jewelry.

“You try to get the markup where you can,” says Bergman. “A more intricate piece calling for more labor and stones you made a good buy on, you can mark up more.” Standard solitaires with simple stones are subject to lower markups because they require less labor and less overhead expense in administration and production, says Rose.

Pieces that face stiff competition from other manufacturers require a smaller markup. “If a customer throws gold [pieces] on a scale, you know that in that area, you

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can't put that much markup on," says Bergman. "But if you have a stone that people don't know much about, you know you can put more on that."

Items that are a greater risk for damage or destruction during production also require a higher markup. "On more expensive soft stones, we have to consider breakage," says Rose. "There might be an extra part of a percentage in there to absorb the cost of damage."

"If you can get the cost of the labor down, you can put a bigger markup on the labor," adds Bergman. "You can get more for 18k or platinum because of the mystique. There's a little less competition."

Estimating costs for a product that has a sales track record is one thing. But what about new products?

Some manufacturers shoot from the hip, which doesn't always work. "Soemtiems the piece doesn't sell," says Rose. "You hope that the rest of your line is producing enough and is profitable enough to cover that expense."

"We depend on the retailer to give us feedback about what the market is doing," says Good. "We make samples. We show them to our customers and people order [from the samples]. We don't make 10,000 of something."

Designer/manufacturer/retailer Bob Lynn takes this a step further. Lynn makes a drawing and perhaps a model of the new piece. Then he talks to other retailers and trusted clients, asking if they would buy the product and what price they would pay for it. He may even place a small mail order ad in a regional magazine, as he did recently, "to see how much interest we would get off the price we were thinking of selling it for." When he got a few orders, he knew he had a winner. "These are not people who are just saying, `yes, it looks good,' but who are willing to pay for it," he observes.

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It's not enough to price your product fairly and profitably. You have to keep your eye on the manufacturer down the block, across the country, or around the world. That may mean sharpening your pencil, meeting a price point, or selling for volume rather than a high profit margin per piece.

"Whether I buy [from a manufacturer] or not is based on two factors: does it sell and can I get my markup?" says Lynn. For Lynn, design and quality are frequently the key components, but these days, virtually all retailers are price sensitive. If you want to sell to them, you may need to adjust your price—but be very sure that you are not cutting into money you need to cover the cost of goods and overhead.

Not every request to refigure your price is bad. After all, if a customer is going to buy in large volume, it can cut some of the expenses you normally incur selling to several customers: postage, invoice, and packaging for example.

When Randy Needles, vice president of Stanley Creations, is asked to do some close figuring, he looks at the item and his costs and asks questions such as, Can I re-engineer the piece? Using less metal or less labor can cut costs. "Maybe you can cut your margin," he says. "Less profit on something is better than a lot of profit on nothing."

Sometimes a customer asks for a price that leaves you less than nothing, however. "If something costs $20 gross labor and materials, one day's experience [in the industry] would give you the information that you can't sell it for $19," says Needles. I f you're making nothing on the deal, increased volume won't make up the loss. It's time to walk away.

In addition, if a customer pays quickly, most manufacturers are willing to work on a a smaller margin because their interest expense goes down—along with the nail-biting that comes with wondering if the customer will pay at all. "When working with a private label—another manufacturer—there's very little financing involved," says Bergman. "With

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private labels, I work much closer. When I sell to independents, I work on a different price structure. [Some] independents could take six to nine months to pay you. When selling to another manufacturer, the terms are 30 days."

Berman also notes that she generally charges more for a ring that sits in a jeweler's case for a year than she does for one that turns six times. "The turns on your money are different, plus you're getting more volume," she notes. Even though the markup is lower, you end up making more money.

Artist/jeweler Sara Sanford increases he prices 5 to 20 percent once a year. Not only does the intrinsic value of the piece go up tin that time, Sanford has put more time into it, in recordkeeping, and in cleaning and refurbishing the piece every time it goes to a new gallery or a new show.

Designers also sometimes find they can make more money by charging more money. "You can't charge more than the market will pay [for a product]," says Lynn. "But if I charge much less than the market will bear, I won't sell as many of [the pieces]. People get suspicious when the price is too good for the value they perceive."

READY FOR ANYTHING

There are two reasons manufacturers should not cut their profit margin any closer to the bone than they have to: returns and the specter of customer bankruptcies. "One of the places people run into trouble," says Karen Good, "is excessive returns because the lines didn't sell well, or if you have a problem with collections. For example, a few years ago there were lots of bankruptcies. That affects the manufacturers because the manufacturer has already paid for the materials."

"Returns come right of the top," says Bergman. "If someone goes bankrupt, that comes right off the bottom line. Last year, I had three people go bust on me. If you're figuring [what they own you] as your profit margin, you can just kiss it good-bye."

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“If the manufacturer gives too much credit to an unreliable company, they’re taking a risk,” says Good. “But large retailers demand [credit].” Sometimes the manufacturer extends the credit anyway and hopes for the best. “I don’t know that it’s any different from any other business,” adds Good.

The manuafacturers we talked to try to limit loss from bankruptcies and slow-pays through tringent credit requirements. “We are so computerized with credit checks, it’s not funny,” says Bergman. “If a customer is 60 days overdue, the computer doest allow us to ship; it it’s 90 days, it doestn’ allow us to take the order.”

There’s an insidious side to manufacturers who don’t’ price accurately that can affect the whole industry, says Needles. If a manufacturer is not adding all his costs into his product, and as a result is selling too low, his price looks very good. “If I do price [all my costs] in, I don’t look as competitive. That’s not good for you, because you’re not going to make money. It’s not good for me, because it won’t look like we’re competitive.” By the time the first manufacturer goes under, your company could be at risk from trying to compete.

So how do manufacturers avoid pricing errors? Keep your eyes open, says Needles. “The problem lots of people have is that they don’t realize everything that [the business] costs them. They think they’re making a profit and it’s eaten up by hidden costs.”

Be open with your clients. Ask questions. What do they expect as faar as terms go? How long will they take to pay? What do they want in the way of return privileges? Do they want you to share advertising costs? “If you ask the questions,” says Needles, “they won’t lie to you.” But if you don’t ask, both of you might go into the arrangement with far different assumptions.

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Be sure customers are able to pay, says Good. Know your product will sell and don't "put yourself on a limb, debtwise. We make sure that we stay very diversified. It's the same advice you get when you go into the stock market."

"Just make sure your markup covers your overhead and gives you a little profit," concludes Bergman. "Watch your sales and make sure they are profitable sales."

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