

Get Set for Manufacturing Challenge: Day 3



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PODCAST TRANSCRIPT

Show Notes at: makeitbritish.co.uk/018

Hello and welcome to the Make it British Podcast.

Today I've got another bonus episode for you - it's the third in our series of 5 podcasts that accompany my [Get Set for Manufacturing Challenge](#).

Each day this week I'm bringing you a special short solo episode where I tackle one of the 5 key steps that you need to take if you want to start working with a UK manufacturer.

Today I'm going to tackle prices - in particular cost prices. - why it's important to have a target cost price, the best way of calculating that price and how to do a sanity check to make sure that your cost price is realistic.

There are two ways of looking at price.

You either take the cost price and then times it by approximately 2 or 4 depending on whether you plan to wholesale or not.

Or the better way of doing it, I believe anyway, is to take the retail price that you want to sell the product for, and work backwards.

This then gives you a target cost price that you can work to.

It is much better to have a starting point like this when you approach a manufacturer as you both then know what you are aiming for.

You can then also do a check that it's a realist price, based on making that product in the UK. Which is something that I'll cover later.

So using my method, before you can set a target cost price you first you need to know what you aim to sell the product for based on what you think it is worth in the marketplace otherwise you're just stabbing round in the dark! And a manufacturer will get wind of that, mark my words!

You've got to research the market before you start on any product development.

If you launching a product and you haven't done this yet then I highly recommend that you do so.

Look at similar products in the market that you think your potential customer might buy, and how much they sell for.

if your product is totally unique think about what else your ideal customer would buy and how your product compares in terms of value in their life. If they were forced to choose between your product and something else of comparable price, does your product stack up?

This is where focus groups can come in handy...but please don't just ask your mum, because she's bound to think that everything you do is priceless!

With selling prices the common mistake I see people make is trying to undercut competitors on price, but this can be a slippery slope and something that you don't want to get into when you first launch a product.

Your product needs to have it's own USP that is not about price but about other key benefits and features that it offers the end user.

So now that you have got your target selling price for a product you can work back. As a very general rule of thumb, if you plan to wholesale the product i.e. sell it through third party retailers, you're going to want to divide you selling price by 4. This gives you enough room to cover both the retailers 2 or 2.5 times mark-up, and your own profit.

If on the other hand, you only ever intend to sell it through your own sales channels, such as your website or bricks and mortar store, then dividing by 2 should be OK - but don't forget to account for VAT!

THE biggest mistake that I see new businesses make is taking the cost price and doubling it. Their product brings them in a decent margin when they sell it through their own website, but once they start to expand and look for other distribution channels, such as selling into retailers, they haven't allowed enough in their retail price to be able to sell wholesale and still make a profit.

It's far easier to put your prices down should you not decide to wholesale in the future, but it's almost impossible to put your prices up as your current customers won't want to pay for the price increase.

So getting your prices right from the start is so important.

Once you've got your target cost price (and if the thought of all this maths making your head hurt we have a handy online cost price calculator on our website which I'll put the link to in the show notes).

Now's the time to do a reality check.

Your cost price needs to include not only the manufacturing cost of your product, but also the raw materials cost and any trims or packaging that you use.

Will your target cost price cover all that? Or is it unrealistic based on what your customer will pay and on what you can produce the product for?

Remember at the time of recording this the National Living Wage in the UK is just under £8 an hour.

Your manufacturer will look at how many minutes it takes them to make each product from start to finish. They'll then add on their own overheads (such as rent, equipment, energy, insurance, and tax) and give you a price.

If you're asking them to make something for a few pounds, do you think it seems like a fair price based on how long it might take them to make?

If it doesn't seem realistic then the only way they might achieve that price would mean that they are cutting corners somewhere. So don't push a manufacturer to try and make something unethically.

So if your reality check makes it look unlikely that you can make the product and still work with an ethical manufacturer go back to the drawing board and either re-consider your selling price, your target market, your distribution channels or your design.

Particularly if you want to make in the UK, the design is all important. Lots of complex features and time consuming handwork on a product lead to high labour costs. And for this reason, some products just aren't viable to make in the UK

One of the questions that I get asked is, 'Should I get a price from several different manufacturers so that I can find the cheapest one?'

This starts to ring alarm bells with me, for several reasons.

Firstly, in order to give you an accurate cost price most manufacturers are going to want to make a sample. This is not only going to cost you money, but also many manufacturers make a loss on samples as they see it as a cost that they can offset against potential business.

if you sample with quite a few manufacturers, and they find out, you may end up with no manufacturer at all, because they'll know that you are just shopping around. That doesn't make for a healthy start to the relationship.

So stick with 2 or 3 max and see how it goes.

So I hope you found that useful.

If you didn't hear the podcasts from the last 2 days (episodes 16 & 17) go back and listen to them as I cover lots of detail related to developing a product in the UK.

I'll be back tomorrow when we'll be discussing minimum order quantities - what they are, and how they effect your product development.

And don't forget, there's still time to sign up for the challenge. Even if you are listening to the podcast in the past.

You can go to www.makeitbritish.co.uk/getset to join.

And if you'd like to find the full transcript of this podcast along with any other details that I have mentioned got to www.makeitbritish.co.uk/018

Until tomorrow

Bye-bye