ONLINE JEWELLERY TRAINING

Understanding The Real Cost Of Running Your Jewellery Business

If you are a jeweller who rents a workshop space then you will have far more costings to consider. This is where this handout and the spreadsheet will help you. There's paying ourselves, covering our costs and making a profit to help build a future proof business (if this is the goal) to think about. It may not be the long term goal, and that's fine too!

Everyone's goals and plans will be different, so do what's right for you, take what you feel you need and tailor it to your own requirements.

Overheads

Overheads are the ongoing, operating expenses of your business. These costs cannot be attributed directly to a finished item, so we need to think about them a little differently to materials and other costs. For instance rent on premises, wages and insurance need addressing regardless of how many units we sell. Some are fixed and stay pretty much the same every month (for example rent, wages), some are variable and depend on your business activity (for example advertising, postage)

Listing our overheads can be terrifying but remember this is an annual figure. We strongly recommend adding an amount for contingency to help you prepare for anything unexpected, we have added 10% to the spreadsheet tool but you can add any amount you wish.

An example list of overheads is included in the spreadsheet, but this is not exhaustive.

Having calculated your overhead costs, we need to turn our attention to how many hours we will be working. Thinking about how many days a week we're working, and looking at how many of those hours we will be actually sat producing items at the bench.

Out of an 8 hour day, in our workshop, by the time we catch up with admin, social media and enquiries, have lunch and coffee breaks, in all honesty this is usually no more than 5 hours, or 25 hours per week. These are our direct income generating hours.

Next we need to look at how much time off we'll be planning on taking during the year. We base ours on family holidays, Christmas, trade shows and industry events which take us away from the workshop, and also caring for dependants re appointments etc. This is your number of available weeks.

Days per week x available weeks

Eg. 5 days x 46.4 (I'm deducting 28 days, equating to 5.6 weeks: I'm taking 2 weeks holiday, 8 days bank holiday, a week off after Christmas *to recover! plus 5 days for helping with family stuff).

This means I have 232 working days available to me. And I already know 5 of them will be productive making hours, so:

232 x 5 = 1160 available hours per year.

Now we can work out how much time we have to absorb these overheads.

SKU – Stock Keeping Unit.
Enable you to manage your stock. Assigning a SKU to your items means you can link photos and track sales/unsold items.

Description – the name of the piece.
Materials – silver/stones/beads/findings and anything else you need that ends up as a part of your finished item. Price up for the piece of metal you buy for the Item you are making. The offcuts are a perk for you as well as the lemel etc

Consumables – things you'll use to make your item, that will eventually deplete/expire.
So things like white nylon brushes, emery paper, solder, polish etc. These costs all add up and need to be factored in!
A bit of data collection is the easiest way to figure this one out – don't guess if you don't have the answers, your bank balance won't thank you for it! The quickest way to arrive at a figure for consumables is add up the cost of everything used per week, and divide by the number of pieces produced. This will give an average consumables cost per item.

Use a white board for example. Write down the amount of white nylon brushes you buy, for example, and then write down how many you have thrown away. Then you know how much they have cost you.

A tally chart is useful here, or our Time Tracker Notebook, every time something is expired/depleted, record the cost. This will need to be reviewed fairly regularly (as cost change and new products appear on the market regularly) to make sure you're covering these expenses.

Be REALLY honest with yourself here! Working out an average cost per item means you can apply this for each piece, but please keep an eye on this – review your consumables cost regularly.

Tracking these historically means you can compare costs, tracking where increases have occurred (you might think about changing suppliers of consumable items, for example if you notice an increase in the cost).

Data is the key to everything, so you might be surprised by how useful retaining your spreadsheets are in the future.

Time – the time taken to complete your item, start to finish.
Add this in minutes. Keep a log or time sheet, so that you start to become more aware of how long a job really takes.

Overhead cost – This calculates the amount of your overheads that this piece will absorb, based on your available time.

Packaging costs - boxes or pouches that you put your jewellery Into. This has to Include tissue paper and labels along with jiffy bags and postage if you send Items In the post.

Outsourcing costs – occasionally, you may enlist the help of a specialist, for example an engraver or a specialist stone setter.
You can factor this cost in here. It's a good idea to track these costs to identify potential training opportunities, for example perhaps investing in training to upskill may be more cost effective if you find you are regularly outsourcing the same skills.

Weight – the weight, in grams of your item.
This is relevant if your item requires hallmarking, which incurs an additional cost.

Assay £ - the minimum weights at which hallmarking becomes a legal requirement are 7.78g for silver, and 1g for gold.
These thresholds and costs are factored into the spreadsheet.

Additional Costs - this is where we would add any costs such as Etsy fees, credit card fees etc

Cost Price / Production Cost – the cost of making your item.
All costs associated with producing the item is included here: materials, consumables, packaging, outsourcing, assay costs and the all important overheads.

If you don't include your time (labour cost) here, you are essentially working for free. Without your time, the item does not exist, so it is integral to the cost.

Your time is NOT your profit

W/sale (Wholesale) £ - the price the item would sell to a retailer, for example a gallery.
This is the cost of the item x 1.5, a standard wholesale markup. Here we have removed the assay and packaging cost, marked the item up, and then added the assay and packaging costs back on, to avoid marking up these accessory costs.

Retail £ - the price the item sells to your customer.
Retail cost x 2.5 is a standard markup. Again, we have removed the assay/packaging costs prior to marking up, and added them back on after the markup. This is factored into the spreadsheet.

Great! We know what to sell our items for to cover our costs. But this is only half the story... We have to make AND sell these pieces. Also, how many do we need to sell?

This would be simple if we only had one line. We would take the selling price of this item and deduct the cost price, arriving at the profit for one item. Simply dividing your annual overhead cost by this will tell you how many you have to make, per year to cover your cost. *This figure is absolutely critical - your breakeven figure to cover your costs.*

Not many of us only produce one line, meaning we need to break things up, or work out an average cost per item. This can be really tricky, but looking at any past data you have can be useful.

The spreadsheet will work out an average based on previous months - meaning you can decide how much information to include. You can override this by adding a manually calculated amount in the 'Override' box.

Either way, it's really important to remove any outliers, particularly one off top value items as this will send the average off whack bringing your target down to an unrealistic level and setting you up for failure! It's well worth investing some time in analysing this, and extremely important to revisit as trends, spending habits and other economic factors will inevitably change.

Review AT LEAST Annually

Market research – costs of materials etc. We use minimal packaging for sustainability reasons, but this also helps us to keep our costs down, which means we can transfer this saving onto the end user. If you notice anything more cost effective elsewhere, please get in touch etc.

What if it's too expensive?

Firstly, who said it's too expensive? If it's someone who would NEVER likely buy your products anyway, then who cares? This is not your customer. There are a few ways to respond to these people who say your work is too expensive.

Firstly say nothing as you don't have to defend yourself. Don't take what they say personally either.

You can always say, "Yes", because you have spent years and a lot of money learning your trade and what you produce is unique and high quality and built to last.

Ask them what makes them say that and then respond in positive ways, explaining why your piece is superior. Explain some of the techniques involved, become the educator.

Is it your customer saying it's too expensive or you? Make sure that you are dealing with the facts and figures and not with your own worries or insecurities about the value of your work.

Perhaps they are right? Perhaps you need to look at ways to reduce costs.

Look at ways to speed up production? Buy items in larger quantities to get a cheaper price? Make items below the Assay marking weights?

Do some market research. Check Etsy, etc and you may be surprised to find out that it's pretty much in line with the market.

You may consider accepting narrower margin on higher value items or try selling ear rings and the matching necklace and then offer a discount.

Two sales at a slightly lower margin is better than one sale.

It is a lot of Information but everything Is so Important to understanding the true costs involved with pricing your own creations. It may take a little time to collate all the data but once you have all this Information you will see how easy It Is to price up your jewellery and also you are able to play around with the data too. Can we reduce overheads? What If I want to pay myself more, how many units would I have to sell? What If I make some pieces In gold, can I reduce the mark up?
All off this can easily be worked out In seconds making you keep on track and ensure you make the right amount of money.

For non limited companies, wages/drawings are classed as profit and taxes need to be factored. Please seek financial advice relating to your country's tax law/rules

At The Bench absolves itself of any responsibilities, liabilities or losses taken by the use of our spreadsheet and worksheets supplied. None of the information in this handout or spread sheet is intended to be legal or financial advice.
Please use your own good judgment in determining your costings and if in doubt then please seek professional advice.