

NEWSLETTER



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A Practical Guide to the Business of Art for the New Millennium. . . .

After twenty years of growing Santa Fe Stoneworks into one of the largest and most respected production craft studios in the industry, I want nothing more than to take some time off to give back a little to this industry that has been so good to me.

As I get more organized in this new endeavor, you will be able to build on your business skills by reading various recommended articles, periodicals and books -- including my own, by accessing the CraftSmarts website, by talking with me on the phone, or by retaining me to consult with you at your studio. Most of these services will be free to you as a professional craftsperson. Fee-based services will also be available to cover your specific needs.

I'm most excited about plans for the new website. Right now it's merely a billboard on the information highway, but stay tuned for a full scale site incorporating a community forum/bulletin board where you can post questions and obtain answers from your fellow craftpeople, chat rooms for timely and topical dialogue on craft-related issues, and a comprehensive listing of answers to frequently asked craft questions (FACQ's). There also will be listings of wholesale shows with details on how to apply, and links to other craft-oriented sites on the Internet. I want to make this your one-stop resource and gateway. I'm not trying to

replace what is already out there or being developed as you read this newsletter -- I rather think of it as a kind of camp fire where kindred spirits can gather round and get their bearings in this new information medium. I firmly believe that the future of crafts lies with the Internet.

The Purpose of Art is to Charge the Object with Speculation

That's Socrates' definition of art. The *business* of art, on the other hand, is to charge the consumer enough to keep the creative process going and keep your family fed, clothed and sheltered. How well you do this is the key.

As a craftsperson, you must obtain your materials, convert them to craft widgets using your tools and process materials, make a market in them, get paid, cover your expenses and overheads, fork over your share of taxes at all levels, use some of the proceeds to keep body and soul together, AND plow back into the process enough to keep the cycle going and -- hopefully -- expand your business. WHEW! That's enough to give you a headache on your left side. That's called the business cycle. It doesn't matter where you are on the curve. Your craft widgets could be made at the kitchen table and sold for cash at a couple of retail arts & crafts shows. Or you could have a production studio employing several people with a multi-level distribution system. What each of you has in common is a real need to keep track of all that money. Crafts are a business and money drives business. In an age of objects made by machine in cookie cutter fashion, a few *thousand* entrepreneurs with your gift can make a very good living crafting items by hand. With the right "charge" on your objects and the right venue, they will come -- and they will walk right over the guy with the 99-cent coffee mug handcrafted in Thailand to get to your \$12 one. Is this a great country, or what?



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Pricing Your Work -- Separating the Amateurs from the Professionals

Nothing is more difficult, for both newcomers and old hands alike, than pricing. It gets to the guts of what it's all about. Incorrect pricing, either charging too much or too little, usually is the single greatest cause of business failure. When we look at pricing, we are examining a very complex matrix of associated issues. There is the question of perceived value *versus* intrinsic worth -- the worth of Shakespeare's plays cannot be measured by their value to the commercial theater. There is the question of the competitive situation in determining your pricing strategy -- with a new product for which there is no competition and a high-perceived value; you can hang the moon. But watch out, your booth neighbor at the very next show might have craft widgets that look suspiciously "derivative" of your work. What about the price elasticity of demand -- higher prices mean fewer sales, while lower prices mean more sales -- can we pinpoint that spot on the curve that maximizes our overall cash? What is the real value of your personal labor -- are you content to be a starving artist, or is there a lifestyle to which you would like to become accustomed? How should your time outside the studio be compensated for?

Having set the stage, here is a simple cost-based pricing formula. Use it to calculate a notional selling price and then compare that price to similar products produced by you or others. This is not scientific, but it does give you a benchmark.

Take your direct costs for producing one item, including an inputted labor rate for you of, say, \$20 per hour. These direct costs should include your materials, supplies, purchased findings, etc. Double them -- that's your wholesale price. Double your wholesale price -- that's your retail price. If you can indeed sell your craft widgets at these prices, you will no doubt make a decent living no matter what your distribution method. If you primarily wholesale your work, then you spend the majority of your time in your studio producing large orders to fulfill the requirements of your gallery customers. On the other hand, if you retail on the arts & crafts show circuit, then you need that added margin to cover your higher selling costs and to compensate you for time not spent in your studio. This is a "real world" formula based on a survey I took of craft professionals in various media. Direct costs averaged 50%, overheads/expenses averaged 25% and pre-tax profits were 25%.

Let's take an example. Say you can make five craft widgets an hour, and you have \$1 in each of them for materials etc. With your inputted labor rate of \$20 an hour, you have \$4 in labor in each piece, for a total direct cost of \$5. Double that for a wholesale price of \$10 and double that again for a retail price of \$20. Now take a look around. Are you making coffee mugs that normally sell on the circuit for \$12? If so, then you're in trouble and you had better take a look at your costs and practices to see where you can save time and materials. Are you making jewelry that normally sells for \$40? If so, then raise your price and start a college fund for the kids. You are lucky/clever in the craft you have chosen.

So what's with the other \$5 -- the wholesale price of \$10 less direct costs of \$5? That's called margin/gross profit and is used to cover overheads and provide funds for growing the business and entrepreneurial profits. Trust me here, you need margins; but that's a topic for a future newsletter. Speaking of which. . . .

Future Topics -- Inquiring Crafts Minds Want to Know

Upcoming issues of this newsletter will feature many more business topics, including:

- liability issues and insurance
- advertising and marketing techniques
- credit and collections
- publicity and public relations
- exclusivity arrangements
- the behavior of costs in a growing business

To continue receiving your free copy of this newsletter, and to suggest topics you would like to have discussed, please call me, fax me, email me or send a letter/post card. But bear with me while I get my act together. I consider CraftSmarts to be your resource, and want it to be responsive to your needs. Feel free to contact me at any time. Here is a list of ways to reach me:

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