

# Costing / Pricing

Costing your products accurately from the start of your business will ensure that you are not losing money to retailers and wholesalers and that you can start to build a deficit (or profit) to further develop your enterprise or create new products. Cash flows, budgets and financial forecasts should be treated as live documents and updated on a regular basis to ensure that your costs are up to date and business finances remain stable. Even if you are a not-for-profit organisation, or charity, cash flow forecasting is still important.

In recent times, food prices have risen sharply and raw material prices continue to be volatile and future forecasts are ever more important. In addition, some retailers and wholesalers will offer good volumes of sale, but margins may be small, or in some cases non-existent and pushing through price rises due to raw material increased costs may not be well received. Better to make a good profit on smaller volumes than a tiny profit on large volumes. Also, remember that quality always sells and a race for the 'pile it high, sell it cheap' options for food and produce sales volume, but are difficult to sustain when competing with larger organisations that have production efficiencies through automation and the power for bulk purchasing of raw materials.

## Know your finances

You will need to record any income streams, or money coming into your organisation such as sales or grant monies and then also your expenditure. Expenditure can be broken down into fixed costs such as rent, monthly water payment, waste removal and then variable costs such as fuel and marketing. You also need to include any staff costs including national insurance payments and pension contributions. Some more detailed information about forecasting and cash flow creations can be found here: <https://selnet-uk.com/wp-content/uploads/2014/03/Workbook-4-Finance-Start-Up-Costings-and-Budget-Setting.pdf>

An accurate cash flow can then inform where you should set your prices for your products. A business plan can also be a good discipline to crystallise thinking and adds credibility when working with financial institutions and customers.

## Basic Unit Costing

Variable Costs + Fixed Costs ÷ number of units created = absolute minimum price if product is not for profit. It is also advisable to benchmark against similar products on the market to see where your pricing should be set and also try and forecast how different numbers of units will impact on your costings.

## Different markets may have an impact on your selling price.

### Selling direct to consumers

This is where you will see the most income coming back to you, but do consider if you can sell enough product through your own routes to cover your costs. It will also potentially be a more time consuming way to sell. Linking with other complementary organisations for deliveries or wholesalers can reduce costs for distribution, although margins may be reduced.

### Selling to retailers

Selling direct to retailers is also a good option - but they will expect to be able to make a good mark-up on your product. In return though it could make it easier and more convenient for consumers to access your products and offer a showcase to a wider audience than you may reach alone.

*'If you are unable to sell your product into the retailer at the price they require and cover all the costs of your raw materials, labour, distribution etc and make a profit then you should walk away from the business opportunity. If not, you will lose money.'*

(<http://www.thefoodclub.org.uk/Guide%20on%20pricing%20a%20of%20food%20product.pdf>)



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## Wholesale

If you are able to create enough product to sell to a wholesaler then you will reach a much wider range of retailers, however wholesalers will expect to pay a low price in order that they can take a margin as well as the retailer being able to take a margin.

*'Know your margins. Broadly speaking, you are going to want a margin of 40-60%. A wholesaler will want 20-30%. A retailer will want 30-60% (depending on the type of retailer they are). The wholesale price will be the absolute minimum that you can charge. Whilst that seems like a lot of money when you're small, as your volume grows it should bring the manufacturing costs down, which in turn will make using a wholesaler worthwhile.'*

Foodstarsuk.com

## Links and further guidance

<http://www.thefoodclub.org.uk/Guide%20on%20pricing%20a%20of%20food%20product.pdf>

<https://www.startupdonut.co.uk/start-up-business-ideas/types-of-business/how-to-start-up-a-food-manufacturing-business>

<https://www.campdenbri.co.uk/blogs/cost-optimisation.php>

[https://www.youtube.com/watch?v=F5TQ8ID\\_s-c](https://www.youtube.com/watch?v=F5TQ8ID_s-c) (US based video)

<https://www.startuploans.co.uk/business-advice/what-is-a-wholesaler/>

<https://selnet-uk.com/wp-content/uploads/2014/03/Workbook-4-Finance-Start-Up-Costings-and-Budget-Setting.pdf>

[https://www.foodstarsuk.com/central-production-units/5-tips-sell-food-products-wholesale/#:~:text=Know%20your%20margins.,type%20of%20retailer%20they%20are\).](https://www.foodstarsuk.com/central-production-units/5-tips-sell-food-products-wholesale/#:~:text=Know%20your%20margins.,type%20of%20retailer%20they%20are).)

