

For Love or Money?

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So you have fallen in love with the sugar arts and have decided to start selling your products. On any given day, somewhere across the country, someone is celebrating a special event. And what's a celebration without cake? Weddings, birthdays, anniversaries, bridal and baby showers, retirements, confirmations, christenings, bat/bar mitzvahs, graduations and even divorces call for some sort of sugary commemoration.

Bringing out the cake is a tradition as American as apple pie. Cakes come in all shapes and sizes and so do cake businesses. And the key word is "BUSINESS." I am constantly amazed by how many business owners, in a variety of industries, try to grow their businesses primarily by undercutting the competition. It is a common mistake and ultimately a losing strategy. Sure, promising customers you will provide more service for less money sounds great. But what ends up happening is that you take on so much work for so little revenue that ultimately it isn't even worth your time. Your clients aren't happy because the quality of service declines, and you aren't happy because you're working too hard for relatively no money.

The love has gone. This is not a place you want to be! You DON'T want clients choosing to do business with you because of low prices. You want clients to choose you because of your expertise and because of the value you provide.

Can you see why the lowest price strategy is a losing one? It works on the premise that the only way to gain business is to take it from someone else. This simply isn't true. There is MORE than enough business for everyone. By establishing your value and working a plan to reach your target market, you can attract business without undercutting your competitors. Not only does this strategy allow you to grow your business, but it allows you to do so in a sustainable and profitable way. THAT'S what we're all after, right?

There are several ways to price your product. One way is per slice, the other way is by the hour and the third way is charging by mark up. Charging per slice is the industry standard for most cakes. Whichever method you use, it is imperative that you know what your actual costs are. Also, do your research and see what the going rate is in your area. This is only a guide. You have to base your prices on your costs/overhead.

A good pricing formula will 1) take the guess-work out of assigning a price, 2) help prevent emotions from clouding your judgment, 3) ensure you have factored all of your costs into your prices, 4) give your business room to grow and be truly profitable, and 5) help you discover opportunities for increasing profitability and reducing waste.

A basic pricing formula could be:

Cost of Supplies + Labor + 10-15% Overhead = Total Costs

Total Costs x 2 = Wholesale Price

Wholesale Price x 2 = Retail Price

Retail Price/# of servings = Cost Per Serving

To be fair, a formula isn't the only factor you should look at when determining a price for your confectionary creations, but it can really open your eyes to the true costs of doing business, and the approximate price you need to strive for to make a profit. It is good to have a basic starting price for a buttercream and a fondant cake.

Ideally you want to do a cost matrix to identify all of your expenses. Brick and mortar bakeries keep track of all of their expenses and so should every baker. Home based workers often use the excuse "But I work from home..." to undervalue themselves. Just because you work from home, does not mean that you are not entitled to a fair wage for your work. Many home based workers, forget about all the costs involved. We all usually know the costs of the basic ingredients to make the cake (sugar, flour, butter, eggs, etc.), but sometimes we forget, or choose not to include, many of the other costs involved in our business. Let's assume you work from your home... a portion the following costs need to be considered in your pricing structure.

- Mortgage/Rent and Insurance (if your home burns down, so does your business);
- Liability Insurance for your business;
- Business Licenses (federal, state, county, city depending on your area);
- Utilities (water, electricity, gas, waste removal, phone, internet);
- Specialty equipment (mixer, pans, tools, molds, etc.);

- Car payment/lease, insurance, and gas (you need your car to buy supplies, deliver cakes, drive to classes, cake shows, etc.);
- The cost of product for tastings, samples, and other promotions for which you do not receive payment;
- Advertising (Business Cards, Website, Bridal Fairs, phone book, etc.);
- Dues and Subscriptions (ICES Membership, Cake Clubs, magazines, internet subscriptions);
- Education (Classes to continually improve your skills and keep them up to date);
- Computer (emails, classes such as Craftsby, etc.);
- Spoilage and waste.

The reality is that whether you are a brick and mortar bakery or a home based cake business, you have the same overhead costs that need to be considered. The last and probably the most undervalued component of pricing is LABOR. No one should work for free. What is your time worth? What are your skills worth? Take into consideration the time it takes to shop, prepare, bake, decorate, and then if applicable deliver the cake.

And when you think you have it all figured out.

Remember that once you price the basic cake, you can customize your quote by adding on specialty items such as: Rental Items (plateaus, fountains, linens, structures, etc.), Delivery charges (based on mileage), Gumpaste flowers, figures, etc., Specialty work (piping, stringwork, sculpting, chocolate, isomalt, etc.).

No matter what products you sell, the price you charge your clients will have a direct effect on the success of your business. Though pricing strategies can be complex, the basic rules of pricing are straightforward: 1) All prices must cover costs and profits; 2) The most effective way to lower prices is to lower costs; 3) Review prices frequently to assure that they reflect the dynamics of cost, market demand, response to the competition, and profit objectives. Prices must be established to assure sales. If the price for your product or service doesn't cover costs, your cash flow will be cumulatively negative, you'll exhaust your financial resources, and your business will ultimately fail. Price correctly, fairly and with profit in mind and you can have Love AND Money! 🍪