

# Ensure a Profit from Your Soap/Cosmetic Business

By Kerri Mixon

Note: This presentation includes information taught in [Soap Business 320: Forming a Legal Business Entity to Sell Soap](#) class at the Soapmaking Studio in Lemon Grove, CA.

For more info on certified business classes for crafters, <http://www.SoapmakingStudio.com>.

## Terms:

**Cost**—The expense imposed upon a crafter. The amount the crafter had to pay for raw ingredients or to attend a venue.

**Price**—The amount of money to be received by the crafter during the sale of the crafter's product. For example, the price of soap.

## Conversation:

1. Do you currently sell a handmade product?
2. Why? –Only possible answer is, “To make money!”
3. What product do you currently sell?
4. For what price is it sold?
5. How did you determine the selling price?
6. Is that selling price the wholesale or retail price?
7. How much did it cost you to make the product?
8. Where is it sold?
9. How much did it cost you to participate in the sales venue? (Farmers' Market, Etsy, etc.)
  - a. If the Farmers' Market charges \$40 to participate, how much product (soap) must be sold to merely cover the cost of the booth? (In other words, assuming your time and gasoline were given for free, how much soap do you have to sell just to break even and cover the \$40 expense of the booth?)
  - b. When a booth at a venue costs \$40, when do you start making a profit?
  - c. The answer is \$80 worth of product. It is always the price of the booth plus the crafter's cost of the product. The raw ingredients (oils, chemicals, colorants, and fragrances) were not free. \$80 worth of soap may cost the crafter \$40 (depending on wholesale vs retail pricing) and must be included in the expense of the day. So, \$80 covers the cost of the booth and the cost of ingredients for the product sold.
  - d. The average crafter does not enter a profit until double-the-cost-of-the-venue worth of products have been sold.
10. Should time ever be given for free? Will anyone consistently give free time to you?
  - a. If it takes 30 minutes to set up the booth and 30 minutes to break down the booth at the Farmers' Market, which lasts for 4 hours, how much labor time was involved with selling at the Farmers' Market? (Assuming the crafter is only selling finished products already in stock.)
  - b. Answer is 5 hours.
  - c. According to both Forbes and Entrepreneur magazines, the number 1 reason small businesses fail is due to the business owner working for free and not paying him/herself. Working for free is neither practical nor sustainable. No one will work for you for free; it is vital to add the cost of labor into your products from their inception.
11. How much is labor worth? Minimum wage?
  - a. What is minimum wage in your area? What is minimum wage at the Farmers' Market?
  - b. At my home in Lemon Grove, minimum wage is \$10 per hour. 3 blocks down the street, when I cross Massachusetts Avenue and enter into the portion of Mount Vernon Street within San Diego city limits, minimum wage is \$11.50 per hour.

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## Resources:

Internal Revenue Service (The IRS is a federal-level resource.)

- Employer Identification Number
- Available for free, issued upon completion of online form from: <https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online>
- A printable form is available from: <https://www.irs.gov/pub/irs-pdf/fss4.pdf>
- If you have no employees, it is recommended you specify:  
10. Reason for applying (check only one box) Banking purpose (for PayPal)

Employment Development Department (The EDD is a state-level resource.)

- If you plan to have someone help you by providing any type of work at any time, register with the EDD for their “Employer Services Online” tools. You may specify “no contractors” and “no employees” until you actually need help.  
Register for a free EDD account online: <https://eddservices.edd.ca.gov/pkmslogout>
- Use the “Employment Determination Guide” to determine if your help is an “independent contractor” or an “employee:” [http://www.edd.ca.gov/pdf\\_pub\\_ctr/de38.pdf](http://www.edd.ca.gov/pdf_pub_ctr/de38.pdf)
- If your help is an independent contractor, the contract information must still be reported to the EDD on Form DE 542: [http://www.edd.ca.gov/pdf\\_pub\\_ctr/de542.pdf](http://www.edd.ca.gov/pdf_pub_ctr/de542.pdf)
- If your help is an employee, schedule a free employer consultation with your local EDD Service Center by using the EDD’s online “Office Locator” tool: [http://www.edd.ca.gov/Office\\_Locator/](http://www.edd.ca.gov/Office_Locator/)

Natural Soap Directory (The Natural Soap Directory is a private-level resource.)

- Visit <http://www.natural-soap-directory.com/> and click on “Sell Your Soap” to go to the “Soap Maker’s Home Page” at <http://www.natural-soap-directory.com/sell-soap.html>.
- From there, click “Set a Price for Your Soap” to jump down the page to the section <http://www.natural-soap-directory.com/sell-soap.html#price>
- First, follow the explanations and examples to set a wholesale price for your soap.  
{ (cost of ingredients for one bar) + (cost of labor to make one bar) + (cost of packaging for one bar) } × 2.35 = Wholesale Price for one bar.
- Second, follow the explanations and examples to set a retail price for your soap.  
(Wholesale Price) × 2 = Retail Price for one bar.
- Each quarter, review your costs and prices to verify you are making a profit.

Make a Profit:

What is a profit and how much profit do you make per bar? Gross profit (also called "sales profit") is the difference between revenue (total sales) and the cost of production, before deducting overheads, payroll, taxes, or interest payments. Simplified, gross profit per bar is the difference between the total cost per bar and the sale price per bar.

Wholesale Price – Total Cost = Gross Profit. Gross Profit ÷ Price (retail or wholesale) = Profit (retail or wholesale).

Certified Lye

<http://www.certified-lye.com/>

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