How To Price Your Handmade Soap

By Al Bullington

Take a look at these prices.

http://corsilver.com

Can you believe that Cor is "becoming the most popular and requested skin care brand on the market?"

Me neither!

Here's another that's not quite as sky-high, but close...

http://www.ernolaszlo.com

Note the 5 star ratings for "VALUE" as a thought-starter.

Isn't that amazing?

You can see there are some exotic ingredients in these products, but still!

Seriously?

Check out the ingredients in these bars of soap for more ideas.

But truly these sorts of prices have little relationship to cost of the products to make, I would imagine.

So how'd they come up with these prices?

Somewhere between these kinds of prices and grocery store prices for soap is surely something like what you want to get for what you make.

Don't you wonder how those prices developed?

Some Approaches To Determining Prices

Books are written about pricing and if you had access to all that information that's probably more than you want to know about pricing.

I don’t claim to be a pricing expert. I do have some ideas about soap pricing based on our observations though.
Consider that generally prices of products are determined by these general approaches.

- Market based pricing.
- Cost based pricing.
- Value based pricing.
- Customer based pricing.

I made these categories up (!), so you may not have seen anything just like this.

Pricing products is one of the more difficult tasks for a business of any type or size!

Pricing decisions are partly art at the very best. That means there is no one set right price for anything. The right price depends on a whole range of factors.

We're just looking at soap product pricing here, so we won't be trying to determine how CocaCola comes up with prices or how the government comes up with what an aircraft carrier is worth.

We're just thinking soap.

We should remember though that somebody decided to price soap at $120 a bar.

I can't say that anybody has paid that for a bar of soap, but it looks like maybe they have!

Here we go with the categories...

Bear with me. These categories overlap somewhat.

**Market Based Pricing**

It could be that what competitors charge for a product is all you can expect to get for what you are selling. That does not mean cost has no bearing on price. It just means that what others charge for a product is likely about what you can get, no matter what you do.

A bar of Ivory soap is priced at about what other white, scented, hard little bars of soap cost. And Ivory soap is really pretty good soap too!

If you were to make handmade soap that looked and performed just like Ivory soap, then you might expect that your soap would be compared to Ivory. Then how could you get a whole lot more for your soap than the Ivory people get? You probably couldn't.

Or...
If you gather up your soap and haul it to a craft show and display it along with the products of seven other soap crafters, then what can you expect?

If what you have is about like what they have, as far as anybody could tell, the price you will get will be what?

About what they get?

Likely.

In those cases, the price that your product will bring is largely based on what other similar products sell for in the same market.

In many cases, what your soap costs has little to do with price.

That's market based pricing.

You price a product at about the same price as others sell a somewhat similar product.

You might at this point wonder how similar does similar have to be.

Are there any two soap makers who make soap just alike?

And who determines what's just alike anyhow?

And besides that, if you ignore cost and just sell at what others are charging, won't that get you in trouble if the price is too low?

It surely might.

That's why even a pricing strategy that looks closely at what others are selling products for still must consider cost.

You might for several good reasons sell your products for less than cost.

But if you want to make a profit at your soap making, you won't be selling for less than your costs for a long time.

Which leads to the next pricing approach...

**Cost Based Pricing**

If you could just decide what your soap costs to make, couldn't you just add on some profit and be satisfied at that?

You could indeed.
But even that might not be the best idea. Let's look at why...

You might for some reason have really low costs. We'll look more at that in a bit.

But let's just say your costs are really low.

That might give you a competitive advantage, but it also might mean your competitors won't like you much either.

Of course who cares what they think!

But if you sell what you make for less than the market price, what others are charging for about what you have, you are passing up profits.

Passing up on some profits certainly isn't all bad. But think what you could do with extra profits. Profits aren't just for spending on foolish pleasures. If you have a way to generate extra profits because of your low costs, you could introduce a new product line. You could hire help. You could market more. You could save some money. You could do all kinds of things.

The point?

Pricing just based on profit levels may not get you the best situation.

Cost matters a lot. Cost is not everything in pricing.

And wouldn't a high cost put you at a disadvantage and lead to ultimate failure?

It might and then again...

See, it could be that your product truly is better.

It might be that the market you're in is not the same one that other soap makers are in...

Are people looking at bars of soap priced at $120 per bar in the same market as people that think soap should be free?

Not likely...

So cost matters. But just pricing based on cost doesn't necessarily get you the best result either.

If you read on below you will see some suggestions for calculating cost.
If you want to make money with soap making, cost always matters a lot. There's more to making money than just low cost however.

A high cost product might make more money than one that doesn't cost much at all. It depends.

And part of what makes it matter is perceptions.

Which leads to the idea of value based pricing.

Value Based Pricing

What if someone struggles with multiple skin issues? What if using certain skin care products eliminates those issues. And what if that person has "tried everything" and nothing else worked.

Wouldn't the VALUE of that special product be related to the solution of those issues? The value of such a discovery would have little to do with the cost of the product to the producer. It wouldn't even have much to do with what other producers of the product got for their products. In fact, the user of the product might not even know about other products similar to this one.

The price of such a product could really relate mostly to what its value was to the user...

That does not mean market price wouldn't matter.

It also does not mean that the cost wouldn't matter.

It means that the setter of the price might have some options. That's because the value of the product might be the over-riding consideration.

Value might trump cost or market price.

Now let's consider a slightly different view of things.

Let's look at pricing based mostly on the customer.

Customer Based Pricing

Bear with me here.

My idea here is much like the value based pricing idea with a little different twist.
You could market your product or even design your product to perform in a certain way. And to some people that might have a value that would be worth only a certain amount. A certain type of soap might only be worth potentially let's say $4 a bar to those people.

But then another group of people might be willing to pay far more for a very similar product.

Let's just say you made a soap that was very clean, simple and basic. Let's say it totally solved all kinds of skin problems for many users. Over a period of time, you might develop this loyal following of purchasers that would gladly pay you three times as much as a bar of Ivory cost. Maybe that gets you $5 a bar or so. But you sell a lot of bars.

Then you might go at this a totally different way.

Let's say you make this really clean, simple and basic soap product. You then add in some scientific sounding ingredients. You add in things from Japan or maybe from Tibet or some exotic sounding Pacific island. You then suggest all the wonderful things such a product might do. You might even border on making health claims for your soap, which actually then turns it into a drug to the government regulators. But that's what you do.

Then you price a bar of soap at not $5, but at $120.

And that's the approach we saw in the soap pricing in the first part of this article.

Some potential purchasers of soap see value in a soap product and they put a higher price on that value than do others.

That's the idea here.

Certain potential buyers are willing to turn loose of a lot more money than are others, for what is essentially about the same product.

Marketing is partly about positioning of products and brands.

It's about perception and emotion.

And it's possible to sell soap at premium prices, if the value is there, and you can find customers who put a premium on the value of that product, and are willing to actually pay more for that value. It's one thing to highly value something in your mind. It's another thing to come up with the money and exchange it for the product.

So, to summarize these four methods of looking at price, consider this.

You are limited by competition on how much you can get for your products.

Cost matters. It matters a lot.
Just looking at cost in setting price might not be a good idea.

If you offer value in your products, then the market price, and even your cost, might not be all that important.

Some people's idea of value is a lot different than others. And some people just don't seem to care a whole lot about what it costs. They just want it and can and will pay.

The truth is that cost usually matters. It's necessary to understand and control costs in most cases. Even organizations that can impose taxes, and print money at will, at least consider costs.

Let's look at how you calculate cost of soap products...

**Calculating Cost Of YOUR Product**

Firstly, let's look at what the materials cost to make a bar of soap.

Now each type of soap probably costs something different. And sadly prices keep changing too. It's probably best to go through this on a regular basis.

For a typical bar soap, you'll have your base oils, lye, superfat oils and scent oils. Of course you might have colors and other additives too. Those should be considered.

Let's look at what it costs to get all the ingredients to your shop to make a typical batch of soap.

That's an excellent starting point for the cost of a bar of soap...

Consider the cost of the following recipe...

**Lavender Luxury Herb Essence Soap**

Coconut oil - 320 grams (11.28 ounces)  
Palm oil - 330 grams (11.63 ounces)  
Olive oil - 440 grams (15.51 ounces)  
Sweet almond oil - 110 grams (3.88 ounces)  
Lye (sodium hydroxide) - 176 grams (6.20 ounces)  
Water - 440 grams (15.51 ounces)  

Scent:
Lavender essential oil - 2 1/3 tablespoons
Superfat oil:
Sweet almond oil - 1 tablespoon

Other additives:
Rosemary oleoresin extract (optional) - 10 drops

Let's get the cost of the different materials...

Coconut oil costs $0.134 per ounce.

Palm oil costs $0.093 per ounce.

Olive oil costs $0.1425 per ounce.

Sweet almond oil - $29 per 7 pounds from http://www.soaperschoice.com.
Sweet almond oil costs $0.2589 per ounce.

Lye costs $0.0175 per ounce.

Water - $1 per 128 ounces
Water costs $0.0078 per ounce.

Lavender essential oil (Bulgarian) - $79 per 16 ounces from http://www.libertynatural.com.
Lavender essential oil costs $4.93 per ounce.

Rosemary oleoresin oil costs $7.37 per ounce.

Then let's calculate the cost to make this batch of soap.

Coconut oil
11.28 ounces times $0.134 per ounce is $1.51.

Palm oil
11.63 ounces times $0.093 per ounce is $1.08.

Olive oil
15.51 ounces times $0.1425 per ounce is $2.21.
Sweet almond oil
3.88 ounces times $0.2589 per ounce is $1.00.

Lye
6.20 ounces times $0.0175 per ounce is $0.11.

Water
15.51 ounces times $0.0078 per ounce is $0.12.

Lavender essential oil
2 1/3 tablespoons is 1.16 ounces. 1.16 ounces times $4.93 per ounce is $5.72.

Sweet almond oil
1 tablespoon is 0.50 ounces. 0.50 ounces times $0.2589 per ounce is $0.13.

Rosemary oleoresin extract
10 drops is 1/10 teaspoon is 1/60 ounce times $10 per ounce is $0.17.

This batch of material makes about 12 bars of soap...

And it costs $12.05 to make, as you see when you add all the above costs together.

Check my math!

That means the cost of materials to make one bar of soap is about $1.00.

And from what I see that's a very normal sort of bar cost.

You could make soap for half that or you could easily spend twice that. But mostly handmade soap material costs are in the $0.50 to $1.50 cost range at this point in history.

It's easy to see from this simple analysis where the cost is in these bars of soap.

It's mostly in the essential oil used for scent.

You can easily increase the cost of the bar by 50 percent just by using a different lavender oil.

And some essential oils are far more expensive than lavender is.

You can also see that increasing coconut oil cost by 50 percent makes little difference in the final cost.

So that's a reason to use organic coconut, palm and olive oils. That costs you just a little extra.
OK

That's the way to get the basic cost of a bar.

But there are other costs too, lots of them.

What are some other costs?

- Packaging.
- Brochures.
- Catalogs.
- Web hosting.
- Web design.
- Advertising.
- Show expenses.
- Auto expenses.
- Paper.
- Computers.
- Other soap supplies.
- And so forth.
- Utilities.
- Telephone.

Some of these, like packaging, go up directly as the volume of production goes up.

Some don't.

And some of these cost items are just plain old overhead.

But, in some way, you must get a grip on these costs or you could sell yourself short and do a lot of work for nothing.

Don't work for nothing.

**Some General Pricing Ideas**

Often some rule for assigning cost or profit is put forth as if it were a law.

Always remember that pricing is part art. There is no one answer to setting prices. Even determining total cost is somewhat of a guess at some point.

Material cost for each bar type can be calculated as above. This calculation is a must if you want to make money.
Packaging cost also is easy to determine and should be known. You can spend nearly as much on packaging as on materials.

Pull together as many other costs as possible. Estimate if necessary.

Overhead may be in the 15 percent of other costs range. Remember this is only an estimate.

At any rate, soap bar material and packaging costs are likely in the $1 to $1.50 range, but you must calculate this for each bar.

A "keystone mark-up" is a doubling. A one keystone mark-up means a product with a cost of $1.50 will be priced at $3.00.

That's a typical wholesale suggested price for typical soap, whatever "typical" is.

Then the soap writers like to get another keystone mark-up to get to a retail price of $3.00 times 2 or $6.00.

And that's about how the typical soap price is determined.

All the soap people are listening to the same people saying that soap has to sell at $6.00 to get a profit.

And then the idea is that wholesale soap would then be $3.00, which really leaves little room for profit.

Here's my idea...

You can price your wholesale soap at whatever you want to price it at.

You are not limited to selling wholesale at half of retail.

In addition, you can set retail at whatever you want.

Just because "nearly everybody is getting $1.50 to $1.75 per ounce for soap" doesn't mean you should.

You might make way more sales selling a 4 ounce bar of soap for $4.00 than you would selling the same bar of soap for $120.00, and you might make more profit too. It's hard to tell without testing.

And how much money would you have to spend to sell a bar of soap at $120.00? A lot? I would think so...
The idea is often put forth that pricing soap at $8.00 per bar generates more sales, as the higher priced bar is perceived as better. Do you think?

Would a properly presented and equal quality bar priced at $6.00 sell in smaller quantities than the same bar priced at $8.00, or $40.00? Wouldn't you think the cheaper bar would sell more? How much more? Would the extra volume of sales generate more profit or less? Only testing would tell for sure.

I could see in many venues generating a total of zero sales of a $40.00 bar of soap.

Do you know where and how to sell a bar of soap for $40.00? Or $120.00? If so, then you should maybe try that and see how you do? This will be a great test of your skills as a sales person and marketer.

Rolls Royce still sells cars. But not nearly as many as Ford. Rolls Royce was bought out too. But Ford wasn't.

Let's look at this another way.

If an ounce of soap materials cost you $0.25 (a 4 ounce bar costs about $1.00), then do you have to get 6 to 7 times that much to make a profit? That's selling at the widely recommended retail price of $1.50 to $1.75 per ounce. Could be you have to charge that much mark-up to get a reasonable profit. But then maybe not.

OK

Soap self-appointed experts suggest that soap much sell for $6.00 to $8.00 a bar to generate profit.

That's for a bar that has a material cost of about $1.00.

Consider...

You might make more profit selling for less per bar.

You could if you sold far more bars. And you might do that at less cost for marketing with a cheaper bar.

Or maybe not...

Testing is the only way to find out...

And you better know what your soap costs.

You also better know how much time and effort is in your soap.
And the time and effort that is in your soap does not necessarily go down just because you buy a lot of expensive equipment and make soap in huge batches.

Many people have discovered a sweet spot making soap with simple equipment in small batches of 30 to 100 bars. It just depends.

**Bar Size And Cost**

Years ago when I had a real job, I would sometimes eat lunch at a little hole in the wall grill. The owner of this popular establishment grilled your burger to order, and he apparently made a living just cooking up lunch during the week. The buns were huge and the meat patties were even bigger. But wouldn’t he have made more money if the hamburgers were smaller? After all, his cost would have been less.

What do you think?

I think he wouldn’t even have had a business with little tiny hamburgers. We would have just gone somewhere else. And after all, how much would his cost have dropped if his burgers were a little smaller? Not much.

Same with soap.

If a bar of soap only costs you $1.00 to make in material costs, how much do you save by cutting the size of the bar by 10 percent? Ten small cents, right? If you cut it from a 4 ounce bar to a 2 ounce bar, what do you save? Fifty cents, right? So does it make sense to try to get $6.00 and $8.00 per bar of soap and at the same time squeeze the bar size to save a dime?

It does not.

I realize that many people do not want really big bars of soap. I get that. An 8 ounce bar of soap is more than a hand-full.

But, within reason, make soap bar sizes generous. Offer good measure and running over and you will more likely have the same degree of success as did the grill owner with his big burgers.

It only costs a tiny bit more to make bars a little bigger.

If a bar costs you an extra dime, you are in no way obligated to raise the price by 70 cents or any other amount.

You may sell more bars if you make them bigger.
Remember the real money in soap making is in repeat business. It's also in the other items you can sell in addition to your soap.

Give good value and you will likely be rewarded...

I've weighed many soap bars. I'm a pretty good judge of what a 4 ounce bar of soap looks like. What people are selling as 4 ounce bars of soap in many cases are not 4 ounce bars. If people will short others to save a nickel, what else will they do?

Make good size bars of soap.

It will pay off in many ways.

**Wholesale Pricing**

As stated earlier, it's your soap and you can sell it for whatever you like. There is nothing to say that soap must be priced at wholesale for half of the retail price.

You can call wholesale prices 20 percent less than retail. You can offer a 30 percent discount for volume purchases.

Know your cost and price wholesale at whatever you choose.

If you lose money on a deal, you likely won't make up for it on volume.

Set your price at what makes you happy. They buy or they don't.

**The Importance Of Profits**

There are many non-profit organizations.

Likely many soap businesses are non-profits.

Maybe yours is.

Maybe the one that offers soap for $120 per bar is.

But I think there is potential profit in soap and related items.

Soap gets used up. Soap is an art form. Many people are handmade soap fans. Many people are out there trying to solve skin problems with simple soap.

It may be that the only way you get to keep making a lot of soap is to make some profit with what you sell.
I encourage you to only offer your products at what is a fair price for you.

A healthy degree of self-respect is necessary when it comes to pricing products.

You deserve to be paid if you turn out a well-made quality product that is in demand.

Profits allow you to keep going and to expand.

Profits are good. So make sure you make them.

**Summary**

Setting prices is partly art.

But setting prices must be based upon a sound knowledge of what it costs you to offer your soap for sale.

Know your costs for every product.

Know your material costs and have a good idea of all other costs as well.

We mentioned four methods of determining cost.

You can use market pricing, cost based pricing, value pricing and customer focused pricing.

You can also sort of combine those approaches.

The typical 4 ounce bar of soap these days will cost $1.00 to $1.50 in direct material costs.

The suggested retail prices for soap these days is in the $1.50 to $1.75 per ounce range.

That yields $6.00 to $7.50 for a 4 ounce soap bar...

That's a good starting point, but you may make more profit at a lower price or maybe at a higher price.

Total profits depend on a lot more than cost per bar or price per bar. Sales volume matters a lot.

It's up to you what you charge for your soap. Only you know your cost and only you know your marketing ability.
Always offer good value and the repeat sales you get can fuel your soap business to good success.