



# Anna's Pricing Question

Anna is a designer-maker.

She makes and sells 100 items per year.

The raw materials for each item cost £50

She works 40 weeks a year, allowing for holidays and other time off for family commitments etc.

She works 50 hours per week, on average.

Over the year, half her working time is in designing and making; the other half is doing all the other necessary business tasks, such as marketing, book-keeping and accounts, networking, administration etc etc.

Anna needs to earn at least £15 per hour

Anna's business has fixed costs (overheads), which she needs to pay each year, irrespective of the amount of business she does. These items include rent, phones, internet, website maintenance, insurance, professional fees, subscriptions for magazines, transport and other costs.

She also includes depreciation on her equipment each year, even though this is not an obvious business expense (because she doesn't ever write a cheque for 'depreciation').

All these overheads, including depreciation, total £5,000 per year.

***Anna needs your help to calculate the minimum price she can sell her items for, if she is to ensure she does earn at least £15 per hour.***



**Let's analyse her business, step by step:**

Total number of hours worked per year =

Number of hours worked on designing and making =

'Designing-making hours' worked per item =

Labour cost in each item =

Direct costs of each item (raw materials plus labour) =

*We also need to take into account the overheads of the business and each item sold needs to make a 'contribution to overheads' to support the indirect costs of the business.*

Indirect costs (or fixed costs) of the business (excluding labour) =

Indirect labour costs (time Anna needs to be paid for, even when she is not designing and making) =

Total indirect costs, including labour =

The 'contribution to fixed costs' which must be paid by each item sold, to cover these business expenses =

The total cost of each item, including all overheads =

*(This is the price Anna needs to sell each item for in order to break even and pay all her costs, including her own labour)*

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Anna's twin sister, Ella, who runs an identical business, likes to be 'nice' to people and sells her annual production of 100 items to friends, family and local shops for £175 per item.

How much does Ella earn each year?

Before tax and other deductions, Ella's earnings =

In contrast, Anna's earnings =