You’ve decided to start a clothing line. Dream and designs in hand, you’re about to enter the world of wholesaling, retailing, and ecommerce. Whatever channel you choose, the biggest question facing you right now is, what do I charge?

Pricing is complicated for both service and product businesses, established owners expanding their business and entrepreneurs starting one. It requires both cold calculation and a sensitive intuition. The best pricing strategies use a clear understanding of basic financials as a springboard for experimentation and deeper knowledge of the market. There’s no one right way to price your clothing, but several principles apply.

**Positioning Your Brand**

Most businesses in the apparel world use a cost-based pricing strategy, in which the final cost to the consumer ultimately comes from the cost of producing that product. But before we talk about how to calculate these costs and mark them up for a profit, know that your business goals can and should affect your pricing strategy.

Industry standards and competitors’ prices are benchmarks, not rules. If you position your line as a luxury or niche brand, pricing using average markups may put off potential customers. Other customers (particularly online bargain-hunters) are put off by high pricing. The ecommerce store Everlane has positioned itself as a consumer-centric, radically transparent brand that cuts out the middle man and shares its savings with customers. Make sure your pricing is consistent with your unique selling proposition, whatever it is.

**The Famous Keystone Markup**

Markups are the cornerstone of pricing in the industry. It refers to how much a seller “marks up” a product from its previous cost. In apparel, keystoning is applying a 100% markup—or, in other words, doubling the price. Keystone markups have historically simplified pricing in a volatile industry, making it easy for wholesalers and retailers to markup products to a profitable level.

It works like this: A designer produces a shirt for $5. That shirt wholesales for $10 (a 100% markup from the original price). A retailer picks it up and sells it to consumers for $20 (a 100% markup from the wholesale price).

Keystone markups have traditionally been 100%, or 2 times the production cost. Recent changes in the industry, however, have put pressure on brands to use markups under 100% and on retailers to use markups above 100%. The market average right now is to price
products somewhere between 2.1 and 2.4 times the production cost (rather than 2 times). But how do you determine your production costs?

How to Calculate Cost, Profit & Margin

As the name suggests, cost-based pricing requires understanding your expenses. After you determine the cost of goods sold (COGS) for each item you sell, you can decide how much to mark up that number to make a certain amount and percentage of profit.

**COGS** is the sum of all the direct expenses involved in making products, namely: materials, labor, factory overhead, and production supplies. It does not include overhead. **Gross profit** is what you have left when you’ve subtracted COGS from your revenue. **Gross profit margin** is the ratio of profit to revenue. On a unit-by-unit level, once you know production cost (COGS), you can play with the revenue (price) and gross profit margins to find the numbers you like.

- **COGS** = materials + labor + factory overhead + production supplies
- **Gross Profit** = Revenue - COGS
- **Gross Profit Margin** = (Revenue - COGS) / Revenue

For comparison, the gross margins of apparel retailers industry-wide is around 47%. Though ecommerce is growing, online stores tend to have much lower margins, with averages in the ballpark of 30%. Amazon’s gross margins are just over 20%! One major reason for these lower margins is the incredibly high rate of return to ecommerce sellers (4 times that of returns to brick-and-mortar retailers).

With all these pricing elements in mind, consider that you are making pants that cost $62 to make. You want to price them at $100. Where does that put you in terms of profit?

**Revenue:** $100

**Cost of Goods Sold:**

$50 First Cost

$2 Inbound Freight

$4.50 Tax & Duty

$5.50 Warehouse Fees
Total COGS = $62

**Gross Profit**: $38 = Revenue ($100) - COGS ($62)

**Gross Margin**: 31% = Gross profit ($38) / Revenue ($100)

Knowing the direct costs and profit margins of each piece you sell is the rational foundation of a creative pricing strategy.