Attachment

1.2 Calculate your costs

This tutorial demonstrates and explains all basic costs you need to budget for, during the various phases of the product launch process, including a case study. Notice that this is the bare minimum, as the calculation doesn't take design, engineering or legal services into consideration.

Cost Overview

Part	**Cost**
1. Create Product Specification	None
2. Supplier Research	None
3. Sample Development	a. Factory samples: $50 to $100 b. ODM samples: $50 to $150 c. OEM samples: $300 to $1000*
4. Production & Quality	a. Product & packaging cost: – b. Quality control: $300 c. Lab testing: $500 to $1500
5. Shipping & Customs	a. Freight cost: – b. Insurance: $50 to $100 c. Import duties: – d. Other taxes: –

*__Includes mold/tooling cost__. Notice that many costs cannot be estimated.

Cost Calculation Example

a. Values

- Unit cost: $10
- Packaging cost: $1
- Quantity: 800 pcs
- Design: OEM (Mold required)
- Quality control: Yes
- Lab testing: Yes
- Transportation: Airfreight ($6 per kg)
- Weight: 110 kgs
- Insurance: Yes ($50)
- Duty rate: 5%
- Other taxes: None

b. Case Study

Part	Calculation	Amount
Product Cost	800 pcs x $10	$8000
Packaging Cost	800 pcs x $1	$800
Tooling cost	1 SKU x $500	$500
Quality control	$300	$300
Lab testing	$500	$500
Airfreight	110 kgs x $6	$660
Insurance	$50	$50
Duty	($8000 + $800 + $500)* x 5%	$465
Total	Add all in amounts column	**Total**: $11,275 **Unit**: $14.10

*See the **Shipping, Taxes & Customs Module** for detailed import duty and tax calculations

c. Pricing your product

As explained in 1.7 Attachment: Pricing your product, you must multiply the unit cost with a factor of 3. In the case above, the cost can be calculated as follows:

Wholesale price: 14.10 x 3 = $42.3
Retail price: 14.10 x 5 = $70.5

---

d. Budget Buffer

We recommend that you have a large buffer of at least 30%, to cover unforeseen costs during the profit. Keep in mind that many costs change on a regular basis (i.e., materials, shipping, and lab testing costs) and you may need additional support from third-party service providers.

How to keep costs down

At this stage, you must adopt a lean approach to both procurement and sales of your product. Each SKU (Product / Model) that you decide to create at this stage, will require serious investments of both time and money. This is mostly due to the following factors.

a. Each supplier sets MOQ requirements on a per SKU basis. Hence, you must invest twice as much money when ordering 2 SKUs, as compared to 1 SKU.

b. Quality inspections, lab testing, and shipping is paid on a per SKU basis.

c. Molds and tooling is paid on a per SKU basis

Once your product is placed on the market, you must budget for sales and marketing costs.

As such, you are advised to implement a lean startup methodology and **launch one product at a time**.

Case Study: Single vs Multiple SKUs

Cost	**1 SKU**	**3 SKUs**
Unit cost: $10 / Unit	$5,000	$15,000
- MOQ: 500 pcs / SKU	500 pcs	1500 pcs
Tooling cost: $500 / SKU	$500	1,500
Quality Inspection: $300 / SKU	$300	$900
Lab test cost: $500 / SKU	$500	$1,500
Total	**$6300**	**$18,900**