

# introduction

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## *Technology. Artistry. Marketing. Embroidery. Embroidery? Yes, embroidery.*

All of these words have more in common that you might think. In order to be a successful embroidery entrepreneur, your skills must reach beyond the basics. You must have a flare for design, a firm grasp of the latest software and equipment, and the marketing skills to get noticed. But that's part of the appeal of an embroidery startup: You have the ability to create quality products that are uniquely you. It's your business, your way.

At Melco, we've seen the birth of successful entrepreneurs and have even been able to nurture these clients on their paths to success. We've witnessed firsthand how rewarding and fulfilling an embroidery startup can be.

But, of course, there is also **profit** to be made. In 2015, the thriving commercial embroidery services industry generated \$732 million in revenue.

And then there is the **freedom**. Many people feel trapped in their Monday to Friday, 9-5 routine, just going through the day-to-day motions. The limitless possibilities of a startup provide a form of untapped independence for even the most stagnant employee.

The embroidery industry is also **one of the easiest markets to crack**. Even just knowing the industry standard for the best equipment can help you turn a

profit—quickly. And, it comes with numerous advantages such as the ability to work from home, to be your own boss, and to be creative, and, not to mention, the obvious tax benefits. All it takes is a strong strategy and the ability to use your skills in a creative and challenging way—all the while having fun and making money.

But this isn't the career for everyone. It takes a highly motivated, advantageous individual to start their own embroidery business. It takes both business acumen and a sense of artistry to run your own embroidery company. Because of the unique skill set required, this career is both a challenging and highly rewarding opportunity.

*"I was initially working as an artist in a screen printing business and wanted to explore other garment embellishment avenues. I wake up excited to do what I love every day."*

Jodie Marbuge



# getting started

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*Developing a business strategy can be a bit overwhelming (to say the least), especially if it's your first time going solo. So before you dream up your grand plan, it's helpful to break it down into more manageable chunks.*

## **Step 1: Determine your competitive advantage**

Who are your competitors? What are they doing well? What are some of their weaknesses? Analyzing your competition in this way will help enhance your own internal strategy by playing off industry strengths and targeting market gaps.

Having a firm understanding of your competition can then help you define your own competitive advantage. Take into consideration your own strengths: What is your background and how can you use those skills in an innovative way? Have you worked in a creative field like writing or graphic design? Do you have experience motivating a group of people to increase productivity? Do you have strong interpersonal skills with the ability to relate and empathize with people of varying personalities?

Once you understand how your strengths can enhance your business strategy, it's important to consider some tangible advantages your embroidery business can offer:

- Do you offer any unique, distinctive services?
- Faster turnaround?
- Enticing add-ons? Do you offer extra services that others don't?

Conceptualizing some of these unique selling points can help you stand out from competitors.

## **Step 2: Define your target audience**

Your target audience is that special group of people who are most likely to be interested in your products. Your ideal customers. Whoever they are, it's important to clearly define them to ensure your branding and marketing—and even product offerings—are on target.

And remember: You're not excluding anyone. You're simply choosing the most effective way to spend your time and money. If you attempt to resonate with everyone by using a vague, generic marketing strategy, you'll lose over half of your audience because it simply doesn't apply to them.



*"My business did not 'start' per se, but it evolved over many years of sewing for friends and relatives. It was only about 4 years ago that I actually named my business. My business plan consists of the simple concept that my work should be as perfect as I can make it and that if I wouldn't buy it from myself I won't sell it to another."*

Madelyn Lenard

*"I started selling my embroidery designs on ETSY to figure out if I had a customer base before I opened my website."*

Jodie Marbuge

*"Yes, I can create art, but if nobody buys it, then what? So I am learning about trends, about remaining fresh and innovative and interesting in creating things that appeal to my target audience."*

Madelyn Lenard

# getting started

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*So how do you go about uncovering your target audience? Well, first start with the easy stuff: the demographics.*

- **Income level:** Are your services expensive or competitively priced? Who can afford you? Who do you want to be able to afford you? (These questions all tie into your pricing strategy, but more about that later.)
- **Age:** Are your products designed for a specific age bracket?
- **Location:** Are you interested in selling locally, or do you want to start an online store that appeals to customers across the country?
- **Occupation:** Are customers with certain careers more likely to seek out your services?
- **Gender:** Who is more likely to want your products? Men? Women? Both?

Other factors to consider are:

- The need your product fulfills
- The scale of production your customers need
- Whether you're selling to a business or an individual

This is also where your competitors can come in handy. Take a look at your competitor analysis and see who other embroidery businesses (of similar size and scope) are targeting.

Once you know who your clients are, you can design a marketing plan to best grab their attention.

### **Step 3: Offer customer satisfaction to gain trust**

As a new business, your reputation is paramount. Your success depends on a steady stream of customer referrals and positive testimonials, both online and off. (Don't forget that people will be talking about you online whether you have a website or not!). Once you develop a strong customer base that trusts your expertise, your business momentum will pick up and expand more naturally.

That's why it's so important to deliver not only unique embroidery services, but also outstanding customer service. You should always take the time to complete a customer request in a meticulous, detail-oriented manner while remaining on time and on budget.

It's easy to forget the small things, like:

- Completing projects on time
- Strong communication and collaboration with the client
- Providing samples
- Meeting their expectations for quality

*"We try to ensure the best quality embroidery at a reasonable price to keep our customers returning year after year."*

Robert Jones

*"We try very hard to do the best job possible, replace any items that we ruin, tell the customer upfront if there is an issue and do things in the time frame we gave them."*

Margaret Januzzi



Samples help to win business

# equipment

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## **Our Recommendation:** *EMT16 Modular Embroidery Machine*

Based on our years of experience testing and using different machines, the EMT16 is our recommendation to new embroidery companies. Here's why:

### **Faster Embroidery**

This EMT16 stands as the new industry-standard based on its efficiency and ability to boost productivity by 28%.

### **Easy Operation**

Entrepreneurs have previously shied away from opening their own embroidery business because machines were intimidating and difficult to use. Technology advancements have come a long way and today's machines are more intuitive and user-friendly than ever before.

Melco's patented Acti-Feed™ system revolutionized the embroidery industry many years ago by making embroidery machines incredibly easy to learn and use.

Melco's EMT16 combines the newest technology with a simplified user interface, so machine operation and training is easier than ever. Now, machine operators can become experts in as little as 30 minutes.

### **Industrial Platform**

The machine cart is designed for mobility, strength, and functionality. This helps machine operators by adding flexibility, especially for those operating new embroidery businesses out of their home.

The new machine stand comes equipped with a large open space under the pantograph so that substantial, bulky items are free to move with the machine. For those that prefer working with a workspace, a removable tabletop is optional.

*"I like that the machine is made in the USA."*

Lisa Farren



Melco's patented Acti-Feed™ system

# equipment

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## Single-Head Startup Embroidery Machine

Most embroidery startups should start small with just a single-head machine. This allows you to maximize your training as you perfect the embroidery craft, focusing on each design and custom creation.

As you improve your skills and increase your customer base, you can capitalize on your Melco's modular capability and easily add heads as you need them. Productivity from embroidery machines increases exponentially as you add more heads, leading to increased profits. But to reach this point, you need to be an expert in operating your machine.

## Modular Multi-Head Production Embroidery System

Melco EMT16 commercial embroidery machines operate independently of each other, on the same network. In other words, the different components of the machine operate much like the parts in a car that must work separately, yet together, for the car to function properly.

Imagine running a large embroidery order on your multi-head system. Suddenly, there is a thread break on head number two. With Melco EMT16s, all other heads will keep running while the thread break is fixed on head two. Damage control. In contrast, all heads on a conventional system will stop until the problem is fixed.

This is because Melco's EMT16 is designed for commercial, high-output production. The modular, mobile system can be configured as needed for specific situations to maximize profits. You could see a return on your investment in as little as 11 months, based on an average of 5 embroidered garments per day, or about 45 minutes of machine run time per day. But, once again, this depends on your efficiency using the machine and the type of customer requests you will be embroidering.

## The Machine: New vs. Used

This is the most popular question for entrepreneurs: "Should I buy a new machine or a used one?"

First, don't get deterred by industry jargon when talking about machines. If you're confused about any machine, the best solution is to ask someone. You can ask us here at Melco, or find a mentor who can offer guidance and personal expertise.

The best advice we can give you is research, research, research. This is why we recommend creating a solid business strategy before making any decisions. That way, you can make an informed choice on what the right machine is for your needs. After all, even though there are many companies within the embroidery market, no two have the same capitalization, experience, employee skill sets, products and strategy.

*"We buy only what we need for a job. We did not go out and purchase all the hoops or overspend on supplies. We only purchased one embroidery machine and bought a second when the need arose."*

Margaret Januzzi



Melco EMT16 removable tabletop

# equipment

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*Like many business decisions, it's important not to rush into things. You should always look at all the options available as opposed to jumping into a decision that directly affects the success of your embroidery startup.*

**Money is often the deciding factor** when it comes to purchasing a machine. If overall capitalization is a major issue, machine cost may make up a significant portion of your startup capital. If this is the case, you may feel inclined to begin with used equipment, simply to save money, and upgrade as your company grows. On the other hand, if you have ample capitalization, machinery cost may not be as much of an issue as: a) necessary number of sewing heads b) types of frames and c) desired software features.

## Things to look out for when buying a used machine

**Wear and tear.** Used machines do not have the same efficiency as new machines that have been improved and upgraded. This is also dependent on the number of products you will be producing.

**Machines marketed as 'fully reconditioned'.** This has been a sales technique to sell used machines for increased prices. If you do come across this offer, that means either the seller got the machine for cheap and may have reconditioned it for the cost invested or, the machine was not truly reconditioned. Were all the needle cases removed and re-built? Were all the needle bar felt packings and 'O' rings replaced? Were bent needle bars replaced? Were clutches, solenoids and trimmer mechanisms rebuilt? Were frame drives reconditioned and re-aligned? These are pivotal questions that should influence your analysis of the machine.

**The true value of the machine.** A late-model used machine, in good condition, at the right price, could be a good investment for some business models. If you're mechanically inclined, the higher maintenance probably won't bother you. If the used machine in question was properly assessed by a reputable source and all repairs are tabulated, it's possible to negotiate a mutually equitable value for both the seller and buyer. Provided the buyer is comfortable with the age, condition, and performance of the used machine, this could be an excellent way to work on a tight budget.

*"I went to an embroidery show knowing that I WAS purchasing a 6-needle Brother machine. At that show they had 2 suppliers with the Brother machine I wanted, but they were both broken due to user error at the show (they were waiting on a tech to fix them). I stopped by the Melco booth and was amazed by the quality of the stitch-outs on the machine. I have owned Tajima & Barudan machines in the past, but the Melco blew me away. The rest is history."*

Jodie Marbuge

# equipment

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## Training

Here at Melco, we understand that training and support are a critical part of your business investment. That's why we offer white-glove delivery service for your purchase of the Melco EMT16. When your machine is delivered, our specialists will also set up and install the software. In addition, we'll also provide two-day onsite training to ensure all of your questions are answered and that you feel confident using your new embroidery machine. We also have a technical support team ready to help when you need it via phone, internet, and our growing social network, MelcoWorld.

**Tip:** Your productivity will be determined by how well you know your embroidery machine. So when creating your embroidery startup, always start with one machine. Buying two machines doesn't mean you can maximize your product output if you don't know how to use them!

## Shipping

Melco is located in Denver, Colorado, which allows us to ship anywhere in the United States at a reduced rate with quicker expected delivery times.



*"The onsite training that you provide with new machines is wonderful."*

Lisa Farren

*"It took about 2 years of intensive effort to develop my skills in using both the single-needle Bernina 780 and the 16-needle e16 embroidery machine."*

Madelyn Lenard

# your workspace

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*There's a lot to consider when deciding where to set up shop. After all, your choice is as much a business decision as it is a lifestyle one.*

## Home Office

### **Pro: Low Overhead**

Many people are afraid to start a home-based business because they're worried about overhead costs, but in reality, the overhead of a home-based business is generally very low. You're already paying to heat or cool your home, and you're already paying a mortgage or rental payment. Unless your home-based business requires additional insurance coverage, there really isn't any overhead to speak of.

### **Pro: Flexibility**

When you're the boss of a typical home-based business, you can enjoy the flexibility of setting your own schedule. You can set your own hours and work when it's convenient for you. This provides more free time for family activities. If you have school-age children, you'll never again miss helping your child's class with a party or project, and you'll never again have to turn down the chance to do something fun with your loved ones. Having a home-based business allows you to enjoy the freedom and flexibility you never thought you could afford.

### **Pro: Tax breaks**

Tax deductions are one of the greatest benefits of running a home-based business. The trick is to keep all of your receipts and keep meticulous records. From office equipment to utilities to accounting fees, there's a long list of possible tax deductions for your home-based business. Chatting with a financial advisor or tax specialist will help you navigate the wealth of information regarding what you can and cannot legally claim when operating your own home-based business.

### **Con: Everyday hustle and bustle**

Kids, chores, chatty neighbors, addictive daytime television; the scale can easily tip away from business productivity to the responsibilities and distractions of a household. Working from home can be tough, especially if you have young children or have a difficult time ignoring home-related chores and errands. Setting up a distraction-free area to work and allotting a certain amount of time per day to focus on your work can help increase productivity.

### **Con: Doing it all on your own**

One person, endless jobs. Running your own home-based business means you are your own accountant, marketer, tech support, customer service representative and custodian. You might not love every aspect of your job, but it's all part of supporting the work you do love and making your business successful.

*"Our business is run out of our home so we meet a lot of new small business owners as well as parents of students who need embroidery for club or sports organizations."*

Margaret Jannuzzi



# your workspace

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## Commercial Space

### **Pro: Separation of home and work**

Laundry piling up? Children drawing on the walls? Supper to cook? There's nothing you can do about it, because you're tucked away in a workspace far from home. Your office is for embroidery and embroidery only. No distractions, no interruptions. Just soaring productivity.

### **Con: Increased overhead**

If you're renting a separate workspace, you're guaranteed to run into additional operating expenses. Things like rent, utilities, insurance, and signage can add up very quickly. So, the big question is: Can you afford to rent commercial business space? If you have a large customer base or have landed a big embroidery contract, then maybe it makes financial sense. But if you aren't bringing in enough money to offset your costs, then maybe it's wiser to stick closer to home.

### **Pro: Room to grow**

Your basement/garage/bedroom may be the perfect spot to launch your business, but things will get a little crowded down the road when you want to buy more machines, expand your products and services, or even hire some staff. If you have lofty business goals, consider renting a space you can grow into. That said, don't dream too big. Office space is expensive and you should only rent what you can reasonably grow into.

Pro: Little to no maintenance and building responsibilities At home, if your toilet breaks or if you discover a broken window, work can grind to a halt. In a commercial space, you don't have to worry about these kinds of inconveniences. Maintenance and repairs are often the responsibility of the landlord, so all you have to do is fill them in on the problem and go about your business. Keep an eye on your lease or rental agreement for the specifics, and be sure to outline these parameters in the negotiations for the space.

### **Pro: A more professional image**

While a home-based embroidery business is perfectly legitimate, it may not give off the most professional vibe, especially if you deal face to face with customers. Yes, they can visit you at your home, but do you really want strangers in your personal space? And on the flip side, do strangers want to be in your personal space? A commercial storefront with branded signage and regular operating hours may present a more credible and professional face and make customers feel more comfortable.

*"They found us. By having a new store, people would stop and see what it was that we did."*

Lisa Farren

# marketing

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## Digital Marketing

We live in a digital era, and if your business isn't online you're missing out on a huge opportunity to connect with potential customers. There are two major components of a successful digital marketing campaign:

### A website

It doesn't have to be anything fancy, but it does have to have all of the essentials:

- A simple web address (one that users can remember)
- A clean design that allows customers to easily find what they want
- A homepage that clearly sums up who you are and what you do
- Easy-to-find contact information (phone, email, and a contact form)
- Correct coding to ensure your website ranks well on Google

That's it. If you want to take it a step further, you can always add things like detailed product and service pages, customer testimonials, a photo gallery of completed projects, or even a blog (just make sure to update it regularly!).

There are plenty of free website builders online that don't require any technical know-how. Or, you can enlist the help of a professional web design company. A basic, professionally built website can cost as little as \$500.

Once your business has gained traction and you have an email database in place, you can move on to promotional emails (no more than one a week) and monthly newsletters filled with tips, ideas, promotions, and links to useful content (a blog post on your website, for example).

### Social media

Social networks like Facebook, Twitter, Instagram, and Pinterest are a cost-effective (and fun!) way to reach customers, build relationships, and promote your brand. Make sure you start up a dedicated business profile for each one you decide to use, and keep the branding, messaging, and voice consistent.

A few tips to get you started:

- Don't just plug your services. Customers also want interesting information about embroidery in general, like helpful tips, funny stories, or links to inspiring projects. It's all about the right balance of promotion, information, and interaction.
- Mix up your posts to keep things interesting. Photos, product promotions, community events, helpful hints, insider info, shout outs to loyal customers—there's no end to the types of posts you can make. Fans and followers get tired of the same things day after day.
- Tailor your content. Spend some time getting to know each social media platform and learn what works and what doesn't work. Pinterest is all about the visuals, for example, while Twitter is best for sharing links to articles.

*"When I have a new design, I add it to my website, post it on Facebook, and send out newsletters for sales."*

Jodie Marbuge



# marketing

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Not web savvy? You can always invest in a digital marketing training course or two, or ask a family member to show you the ropes. As your business grows, you also might want to consider outsourcing your marketing to a professional digital marketing company.

## Networking

Running a successful embroidery business is all about building relationships. And not just with customers, but also with other shop owners and industry professionals. With the right connections, you'll be able to glean helpful advice, share some insight of your own, and generally make yourself known as a knowledgeable resource in the embroidery community. Just remember that the goal here is to establish relationships, not to sell your services. Nothing ruins a networking opportunity more than the pressure to buy! So keep it light, be yourself, and always follow up.

These days, networking happens both online and off. Here are some of the best places to gain valuable industry connections:

### Online networking

- **Melcoworld** - A community of users for Melco equipment
- **National Network of Embroidery Professionals**
- **LinkedIn** - This professional social network is a must-join for any business
- **Facebook**

- Blog commenting. This means leaving useful, relevant comments on other business blogs

### Offline networking

- Chamber of Commerce
- Local business associations
- Trade shows
- Craft shows

### Direct Marketing

Direct marketing includes things like magazine ads, newspaper ads, digital ads, television ads, leaflets, flyers, catalogues, business cards, e-newsletters, promotional emails, door-to-door sales—basically any type of advertising that reaches the customer directly.

There's no one-size-fits-all direct marketing solution, so you have to pick and choose what's best for you. For a blossoming embroidery business such as yours, the best places to initially invest your time and money are:

- Business cards - If you have to pick just one direct marketing method, this is the one. Spread them liberally to family, friends, business owners, and current customers.
- Newspaper ads - A simple classified ad will suffice.
- Flyers - Pass them out to local sports stores, clubs, schools, and other organizations who may be in need of your services.

*"As time has progressed, we do contract work with three of our local marketing and promotions companies. They have been great for us as a business."*

Lisa Farren

*"I passed out business cards to everyone and word of mouth spread."*

Margaret Januzzi

# marketing

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## Donating Products and Services

Donating your products and services is a great way to help out a good cause, all the while boosting your visibility in the community. Some places to start? You could donate a completed project to a community silent auction, offer to embroider a local sports team's jerseys/hats, or host a free embroidery workshop at your local community center, sewing club, library, or other venue of your choosing.

## Referrals

Before you officially launch your business, you should consider setting up a referral program. It's an easy, inexpensive way to gain new customers and retain your current ones. The way it works is simple: You reward customers for referrals by giving them a discount on their next order. Once business picks up, you can keep track of all of your referrals in a spreadsheet.

Don't forget to mention this perk on your website! And to make it even easier for customers to bring you new business, tuck a few business cards in each order you ship out.

## Cold-calling

Never underestimate the power of a good ol' phone call or knock on the door. Before you officially open for business, it's a good idea to contact local businesses by phone, email, or in-person visit to alert them of your

opening. Keep your conversation quick and friendly, bring your best samples to show off, and always leave a business card or website link to make sure they can easily contact you at their leisure.

When deciding which businesses to get in touch with, don't just stick with the ones who could obviously use your services. Treat this as a networking opportunity and visit as many businesses as you'd like. You'll make yourself known in the community, and who knows, you might even land some unexpected business.



*"I offer my customers free designs and special sales to my newsletter customers."*

Jodie Marbuge

*"I demonstrate our machine at a local high school district Science Fair. Four thousand people attend and I talk about how this uses science every day. Business cards are passed out freely as well as the embroidery samples I do all year. I let the kids pick them out of a box and they love to take home a souvenir."*

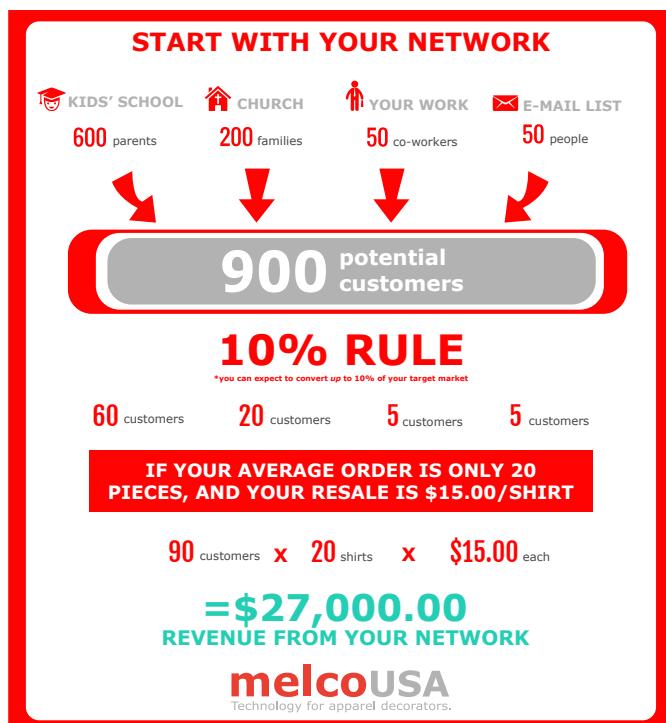
Margaret Januzzi

# selling

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## Finding Your First Customers

Worried that you'll have a tough time getting business? Put those fears aside. Attracting your first customers is easier than you think! Even a basic network of your existing friends, family, coworkers, and acquaintances is enough to get your business off the ground. And when you add in a small email list, you're more than set!



## Pricing

The only thing better than doing what you love is getting paid for doing what you love. If this is your dream – and it should be if you're starting up an embroidery business – then you'll need to sit down and crunch some serious numbers.

In order to generate consistent profit margins, you need to find the right balance of fair, equitable, and profitable pricing for your embroidery services.

**But first, a quick warning:** As tempted as you are, don't use your competitor's prices as a foundation for your own prices. For one, you don't know if your competitors have done their homework. And two, you don't know if their prices are profitable. They might have set unreasonably low prices in the hopes of attracting more business, when in reality these prices are undermining their profits and putting their business at risk.

Instead, make wise choices for YOUR business. It's easy to create pricing lists tailored to your business by following these steps:

- First calculate the cost of doing business
- Next calculate production output
- Divide stitches into cost to arrive at a cost per 'production unit'

# selling

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This gives you a cost factor, enabling you to determine a competitive markup and final selling price. Need a few more details? Read on.

## Step 1: Calculate the cost of doing business

All businesses have two major costs: fixed costs and variable costs.

**Fixed costs** are those costs that are the same month after month, such as rent, machine payments and depreciation.

**Variable costs** change depending on the amount of units sold, direct labor, and raw materials. As production increases, you have to hire more people and you consume more raw materials.

In order to run a successful business, you need to keep track of your business information. Assets, liabilities, inventories, cash flow, sales, expenditures—all of these things need to be accurately recorded on regular basis. Bookkeeping software like QuickBooks is designed to keep small businesses organized, and is an affordable and convenient way to store and manage all of your important data.

In addition to the expected bill payments, there are two other things you must consider:

### Overhead

Because your business is based in your home, you may be able to deduct certain expenses such as insurance, maintenance, and utilities. See **IRS Form 8829** for more information. If you do not include this overhead figure in your cost basis, your cost may be lower now (offering you a competitive edge in your pricing) but will jump substantially if and when you have to move the business out of your home.

### Depreciation

Since you don't sit down and write a check each month for depreciation, you may not think of it as an expense. It is however, a very real expense. As your machinery ages, it loses value. Depreciation allows you to get a tax break on your major machinery purchases over time. When you include depreciation in your costing, you pass on the cost of your equipment to your customers.

Next, use your bookkeeping software to run an average sum of daily expenditures. Then, total them for the month.

*"I have had to learn accounting software for accurate record-keeping. I have had to develop and hone my creative abilities in order to remain relevant in my niche."*

Madelyn Lenard



Don't forget taxes!

## Step 2: Calculating Production Output

This stage has two basic parts:

### **Establish a measurable unit of production to track.**

Since embroidery designs are digitized in stitches, it makes sense to use 1,000 stitches (1Kst.) as your production unit.

**Establish your production figures.** To get the most accurate numbers, it's best to track your production with a production log. In case you aren't familiar with the term, a production log keeps track of every order produced in your workshop, from the first point of contact to the final send-off. Each step of the process should be broken down and timed so you can see exactly how long each job took to set up and complete. If you have multiple machines, set up a separate log for each one.

In lieu of a production log, you can estimate your figures by using the following formula:

### **Output stitches = 50% of your machine speed**

For example, if your stitching speed is 1,200 stitches per minute, 50% of that is 600 stitches per minute. This means that during an 8-hour day of production, you should be able to generate 36,000 stitches per hour (288,000 stitches per day) working full time.

Keep in mind that these output figures reflect a full 8-hour workday. If you're a startup business, you probably won't have that kind of volume. But by projecting full-time production, you'll come up with a realistic and competitive cost.

Also keep in mind that it's perfectly normal to operate at a loss for the first few months of business, even with your profit margin included. What you'll need to do is have enough money set aside to cover that loss and keep your business running until you've achieved a higher production status.

## Step 3: How to Calculate Cost Per Unit (1KSt)

To find your cost per unit, which is actually the cost per 1,000 stitches, use the following formula with the figures you calculated in Step 1 and Step 2:

### **Hourly cost of doing business / Hourly production output**

For example, if your production cost per day works out to be \$18 per hour (\$144 per day, \$4,380 per month) and your adjusted production output was 600 stitches per minute (SPM), which becomes 36,000 stitches per hour (SPH), your cost per thousand stitches would be  $\$18/36 = \$0.50$  per thousand stitches.

## Step 4: Selling Price and Competitive Markup

We can't tell you what to charge for your products and services (the FTC prohibits it!), but what we CAN do is lay out some guidelines to help you make a decision. Let's use two business models to warm your brain up:

**Embroidery shop #1** has chosen to only provide embroidery services on customers' own goods.

By nature, embellishment will usually command tight profit margins. Even though embroidery often creates the perceived value of the garment, **the customer is still buying the garment, not the embroidery.** By following this business model, in order to make a reasonable income, you'll have to do a lot of volume and own a lot of production machines to make a decent profit.

**Embroidery shop #2** sells wearables as well as the embroidery.

If you follow this model, you can easily make the most of your margin on the garment and show a reduced margin on the embellishment. When you add the two margins together, you can **make a good income as a single head shop.**

## Markups

Markups are what create your profit margin. In the retail industry, most large stores mark up their garments at least 100% (50% gross profit margin). This practice of selling an item at twice the price it was bought or produced for is called "keystoning."

**Large retailers** are able to justify this high margin because:

- They buy in bulk
- They're stuck with the task of disposing of unsold merchandise at the end of the season

**Small embroidery shops** are what we call "made to order" or "custom shops." Because you only order items on an as-needed basis, you'll generally have lower markups than larger retailers. This is because:

- It costs more to order less. A typical customer might order 13 pieces in 5 different sizes, with each item embroidered. You will only order 13 pieces from your distributor at a wholesale price, which is not as cheap as a huge bulk order placed by the large retailers.
- Because you only order what you need, you won't ever be stuck trying to liquidate unsold merchandise.

**Most small embroidery shops fall between a 50% to 100% markup.** That's a 33% to 50% gross profit margin.



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## Pricing Garments

The garments themselves are easy to price because you know your cost (don't forget to add inbound freight charges!).

The embellishment, on the other hand, can be a little more complicated because you have to first figure cost based on history (Step 3) and also charge for digitizing or lettering setup fees. Obviously you'll want to try and get the highest markup possible (what the market will bear), but the embroidery portion of the selling price will probably only get a 50% markup (33% gross profit margin).

## Beyond the Call of Duty: How to Boost Perceived Value

We've talked in depth about the real value of your products and services, with all the daily expenditures and production factors taken into account. But did you know that your products and services hold another kind of value? One that can boost your profit margins with very little effort on your part?

It's called **perceived value**, and it's just as important as the actual value.

Basically, perceived value is the worth your products and services hold in the eyes of the consumer. It's what makes people at Graceland pay \$500 for an embroidered satin Elvis jacket that's really only worth \$50.

And the beauty of perceived value is that you, the business owner, are able to influence how people feel about your products—and in turn maximize your profits, regardless of what the competition is doing.

There are three things you can do to boost perceived value:

**Quality** - Embroidery has always enjoyed the distinction of being a rich form of embellishment. This probably comes from a time when all embroidery was done by hand. Even though we use high-speed, computerized machines now, we shouldn't kill that perception with sloppy finishing. Check your work thoroughly and remove any loose threads. Remove the backing neatly and remove any hoop marks. Double check the color choices and correct spelling of names and words.

**Service** - Always deliver as promised! Go the extra mile to make your customer's experience enjoyable and rewarding. If any mistakes are made go out of your way to remedy them. Make it impossible for your customer to consider going anywhere else.

**Packaging** - Most of the perceived value comes from the packaging. Even though packaging materials are thrown away by the customer, you'll find that you can earn additional margin through creative packaging. It's possible to increase your product's or service's perceived value by as much as 10 times the cost of the packaging materials alone. This is far more markup than you'll get from either the garment or the embroidery.

*"We offer discounts to individuals and groups that return regularly. Sometimes it is in the way of no digitizing fee or no screen charge. For our sororities and fraternities, we generally give them a little sometime to go with their jobs (keychains, t-shirts, etc.). It depends on what their totals are."*

Lisa Farren

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## One Last Trick To Improve Your Pricing Strategy

Don't make pricing the focus of your sales presentation! By doing so, you'll draw attention to it and create anxiety for both you and your customer. To get around this tricky sales obstacle, you need to learn HOW to communicate your message in another way.

Here's an example:

When talking to a customer, never leave the price at the end of a sentence. For example, if the customer asks for the price of a monogram over a robe pocket, instead of saying, "We can do that for \$12.50," try saying, "We would be happy to initial your robe for only \$12.50. Would you like that in the dark blue or navy thread?" Also, try adding, "If you place the order soon, I can get it on my schedule for you to pick up day after tomorrow."

By following the simple guidelines above, you should be able to comfortably derive profitable pricing for your business.

## Conclusion

Whether you're new to embroidery or have been honing your skills for a while, we hope this guide has taken some of the mystery out of starting your own embroidery business.

If you'd like to know more about starting your own embroidery company, or just about embroidery in general, feel free to [get in touch with us](#). We're always more than happy to discuss your unique business opportunity and explore the best equipment package and investment options.

**Happy embroidering!**

*"Having your own business is not just about making things – you must also be a merchant, an accountant, a timekeeper, an advertiser, a promoter, a repairman, a trainer, a researcher, and a developer. In short, you must do and excel in all the jobs required to keep a business running. Making stuff is the easy part."*

Madelyn Lenard

