



“How To Start An Embroidery Business”

Module 2 The Basics Of Pricing Your Embroidery

Hi there, I am Joyce Jagger, THE Embroidery Coach, and I want to welcome you to another Module in this course. During this lesson I am going to be focusing on the Basics of Pricing Your Embroidery!

Learning how to price your embroidery is **mandatory** if you want to have a profitable & successful embroidery business! In this class I am going to talk about:

- How to Create the right Mindset in order to have a profitable embroidery business!
- How you must keep track of Production times!
- The Basics of Creating your Price List!

In this class I am going to provide you with a **Basic Price List** to help get you started but it is not a price list that you can use forever. You are going to have to establish your own price list based on your figures. I will give you the basics of how to create your own pricing structure and it is very important that you go through the exercises!

You **CANNOT** just take this **Basic Price List** to get started and depend on it. Without going through the exercises that I will share with you, you will be cheating yourself of the basic knowledge of how to come up with a price for something that is not always the norm!

There is a lot to creating a profitable pricing structure but when you first get started, any more than the basics would be very overwhelming to you because you have so much else to learn to get your business up and running.

You need to be concentrating on getting your business started and going through the process of creating your basic pricing and then after you have your marketing down and your design basics in place you can go back and revisit your pricing structure again to make sure that it is going to work for you. The **Basic Price List** that I will be giving you is based on a one person shop in the home that has a single head machine and basic expenses.

Creating The Right Mindset

Creating a positive and focused mindset from the very beginning is crucial to having a profitable embroidery business! Being confident in your product, your pricing, and most of all, yourself, are the key factors.

In starting your own business, your prices must reflect your costs and what you want for a profit, NOT the price of your competition. Thinking that you have to compete with every other embroidery shop in the area regardless of the size, is a recipe for failure from the beginning that many embroiderers just starting out make! You cannot compete with anyone else. Your cost of doing business is not the same as that of your competition. There is no way that you can base your prices on anyone else's. You have to go by your own expenses, the profit that you need to make, and your market niche!

You do not need to start out with lower prices when you first start to get the business. Those that do this lack confidence in their pricing. This creates the feeling that they need to start out with the lowest prices and then they can raise their prices after they are in business for a while. This does not work! You need to offer a quality product with excellent customer service to get the business.

If this is the way that you are thinking about your business and pricing, it is vital that you change your mindset about your business, your pricing and the way that you work with your customers. **You must STOP putting yourself in your customers shoes thinking that they will not pay your prices. This is NOT a positive mindset to help you build a profitable embroidery business.**

To be of positive mindset, you must find a way to set yourself apart from any of your competition and develop the mindset that you are going to be the best embroiderer around, have the best quality products, and offer the best customer service. **Be confident in your product, your pricing, and most of all, yourself.**

Our customers are coming to us because they cannot create those custom items and we are offering a very valuable, professional service to them. We need to be charging the correct prices for this valuable custom service. Many new embroiderers feel like they are charging their customers for their education and in all reality, they worked for a long time studying the competition, learning the trade, setting up their shop and creating samples.

When you can develop a positive mindset and work on all of those qualities to accomplish this, you can have a great business! I know you can do it because I did it, and it worked! There is one thing that you must keep in mind right from the very beginning of starting your business.

YOU are a professional offering a very professional service and you need to be paid accordingly. You are NOT an unskilled laborer!

7 Myths that will Kill your Business!

When you are first starting your embroidery business, you really do not know where to begin when it comes to the pricing area of your business. It has become a common practice to acquire the price list of the competition and try to stay one step ahead of them by lowering your prices just a bit or else charging exactly what they are charging; thinking that this is the way to go.

Many embroiderers soon find out that this is not the way to go and they are scrambling trying to find out what they can do to turn their business around so that they can in fact stay in business!

Before we actually get into how to create your pricing structure, I want to talk about some false ideas or myths that people have learned or developed over the years about embroidery or the embroidery business.

These myths stand in the way of creating a pricing structure that allows an embroiderer to charge what they truly should charge for their products or services. The main ones that I want to talk about are:

- **My prices must be lower than the competition!** - This could not be farther from the truth. In today's competitive business climate it often seems that price is the customer's most important reason for buying. If this were true we would be very limited in our choices and there would

be no high end products available in the market place. People are looking for choices; convenience, quality and image, not just low prices.

Is there a service or a process that you can offer your customers that they cannot get from any of your competition? What is it that you can do to be more efficient than the competition? It is usually better to focus on being different in a particular market rather than trying to compete directly. Find a unique strategy or a way to position your products or your business differently in the market place.

- **Cost plus desired profit margin is the final selling price!** - Using this method is quite simple, but this is only true if you want to go out of business quickly. This does not allow for any type of cushion to work with and nothing for growth. There are many factors involved when you are creating your pricing structure but we will discuss that a little later.
- **Low prices will create loyalty!** - With this type of customer, the loyalty ends as soon as the next embroidery shop offers a lower price. This type of customer is constantly price shopping and is not the type of customer you want to do business with. They are a large disruption to your business and will bleed you dry.

A classic example of a customer of this type will promise you that they are going to be bringing in a large job or many large jobs and will want you to quote on those large numbers. Of course their first job is only a small one, but since they are going to be bringing in a lot of work, they expect the low price for this first one!

- **I have money coming in every day, it pays the bills!** - There is a big difference between money coming every day to pay the bills and making a profit. Many times we just fool ourselves into thinking that everything is OK and Yes, we are making a profit. After all, I am paying my bills or most of them. Answer truthfully the following questions:
 - Are you able to pay all of your bills as soon as they come in?
 - Are you able to take advantage of all of the discounts from suppliers?
 - If you are using credit cards, is the total balance paid off at the end of every month?

- Are you paying yourself a salary? Is it the kind of salary that you want or it is just enough to get you by?
- Is there enough money set aside for the lean months?
- Is all of your equipment paid off?

You will know that you are making a profit when your income is greater than all of your expenses!

- **Drop your prices if sales are lagging!** - If sales are down, drop your prices and sales will automatically increase. I see this over and over, especially at the time of year when sales are slow. It may be true, but with this approach to lagging sales, all that you are accomplishing is leaving money on the table and lowering your profit margin.

Lowering your price can many times bring you a lot of work, but it is not always the kind of work that you are looking for and you may have to hire new employees to be able to handle the increase in your work load. This will lower the profit margin even more. Training new employees is very costly and many times mistakes are made that also lower the profit margin.

You must evaluate your whole situation before you even think about lowering your prices and if you are keeping track of all of your job costs you may discover that lowering your price is impossible. It may be time to look at other aspects of your business to see how you can decrease your costs or gain more add on sales through your current customer base.

- **I just started my business, my prices have to be lower so that I can get the work!** - You feel like you are charging your customers for your education and in all reality, you worked for a long time studying the competition, learning your trade, setting up your shop and creating samples.

Lacking confidence in your pricing creates the feeling that you need to start out with the lowest prices and then you can raise your prices after you are in business. This is the wrong way to think.

- **With my new software I can create designs faster so I do not have to charge as much!** You paid a lot of money for your new software and if

anything, you need to charge more because you can now give them higher quality products or you may be able to give them more options than what was previous available.

A new embroiderer must get past these untruths from the very start in order to build a business that is going to be profitable. These myths will sink a new business right from the onset, and yet this is how so many people start out thinking.

Remember, a Positive Mindset will help you build a Profitable Embroidery Business.

The Basic Steps To Get You Started!

When you first look at the Basic Price List that I have provided you, you may think that the pricing looks very high but you must keep in mind, again, this is a business! This price list is only one to get you started. You are going to have to keep track of your costs, your production times and your artwork or design times to actually come up with a price list that will be unique to you and will work to give you a profit!

Once you know what your monthly expenses are going to be and what you actually need to add on for a profit then you can create a price list that will really work for you.

The first step in creating your pricing structure is to gather all of your expenses and lay them out on an **Expense Spread Sheet**. Then you will transfer these figures to a **Cost Analysis Spread Sheet**. This is going to give you your breakeven point. Your breakeven point is what you have to be bringing in each and every month just to pay the bills.

Once you have your breakeven point established, you now need to find out what each one of your job processes are costing you. By that I mean each step in your business that goes towards producing a product for your customers.

There are many factors in producing a product that starts with working with the customer. Once you know your breakeven point, it is now time to start with the basics of keeping track of your production times.

The Importance Of Keeping Track Of Production Times!

When you first start, you have no idea as to how long any of the processes are going to take and you will be slow when you first start but this is the basics and an extremely important step that you have to take in order to establish a price list that is going to make you a profit.

Keeping track of your production times is a practice that must be started at the very beginning of your business and continued until you are no longer in business! I cannot emphasize enough the importance of this step! Time is money and every process that you go through in your business is costing you money and needs to be charged back to the customer. Without keeping track of your time it is impossible to be able to come up with the correct type of pricing structure that you are going to need to make money in this business.

There is so much more to creating a profitable price than charging by the stitch count alone. There are many more steps that go into an order that must be considered.

New embroiderers and many embroiderers that have been in business a while wonder why they are not making any money when they are charging by the stitch count. They have collected other embroiderer's price lists and start going by those prices because they think that this is what they have to charge. I find this over and over and it is a practice that is going to kill your business!

This is so wrong and as you will hear me repeat myself many times, **your pricing has to be created by using your costs and profit figures and no one else's!**

You Must Keep Track Of All Of Your Production.

Go through the steps of each and every order. Think this through thoroughly! I made a list to make it easy for you.

- Taking the Order
- Planning the Production of your order
- Hooping
- Loading & unloading the garments into the machine
- Running production
- Trimming, steaming, packing garments
- Finishing up paperwork for billing

- If any errors were made, the time that it took to repair the garment must also be tracked along with why the error was made in the first place. Often times these errors can be corrected easily, but they always take time and cost money.

The only item in this list that most embroiderers charge for is the Running production! Does that make sense to you? Who is paying for all of the other steps? This is a business and the customer must pay for your time. Have you ever taken your car to the garage for repairs and have them charge you only for the time that they are actually working on your car? Is it minimum wage or close to it? I don't think so! You are paying for the rent of the garage, the manager's salary, part of the utilities, the mechanic to actually work on your car and even part of his insurance, health and liability! You are in the exact same type of position and you need to be charging a price that is going to help pay for all of your bills as well as bring you in a profit!

As you go through this program I want you to constantly be thinking about this as it relates to your business! Start keeping track of all of the time that it takes for each and every process. Until you have an average cost for each it is hard to be able to create that pricing structure but this is the beginning!

Production Tracking & Timing Form

Job Name		Job No.			Date Beginning		
Stitch Count		Location on Garment			Date Ending		
Type of garment		No. of Trims			Trim Time		
How many heads?		No. Color Changes			Color Change Time		
Machine Name		Machine Speed			Quantity		
Quan.	Production Step	Time start	Completed	Seconds	Minutes	Total hours	Cost
	Receive and write up order from customer						
	Open box of goods/Count with packing slip						
	Lay garments out for production in sizes						
	Plan out production-hoops-machine-process						
	Hoop the garments						
	Hard to hoop item? How long?						
	Set up machine for design & production run						
	Load garment into the machine						
	Run Production-Actual running time per run						
	Remove from machine						
	Trim Garments						
	Remove backing						
	Remove any stains or oil						
	Steam						
	Place garments in size stacks						
	Count garments						
	Fill out packing slip						
	Packed garments in box						
	Weigh box/ prepare shipping label for shipping						
	Staple all paperwork together for billing						
Quan.	Design and Machine issues	Quantity	Sec. each	Total Sec.			
	How many Thread breaks						
	Break or change any needles?						
	How many Trims in Design						
	How many Color changes						
Total time spent on job							
How much actual time was the machine running?							
Total Breakeven point cost for each embroidery							
Was there any machine downtime for repairs? Explain							
Was there any other problems with this job?							

Keep Track Of All Artwork & Setup Times

- Talking to the customer about the design
- Planning out the design
- Setting up the design or sending it to a digitizer
- Run off the design
- Edit the design
- Email design to customer for approval
- Prepare job folder for production - If you have the job folder prepared with all of the design information in it, a copy of the run off, exactly where the placement is going to be, all of the colors for each part of the design, how long it takes to run it, it will make the total job production go much faster with no questions needing to be asked. Make sure that the approval form from the customer is also inside of the folder. This is very important. I have an Embroidery Room Worksheet that I use to fill out all of the color information on it along with the color of the garments so that the operator makes no mistakes. You have to create a situation where all of the possibilities for errors totally vanish.

I have these forms for you to download to use to keep track of all of these times. It does not take long but it does take concentration and getting used to. By filling in a form with each job, they quickly learn ways where they can save time and decrease their actual production times in some of the steps.

Keeping track quickly makes the embroiderer realize all of the time that goes into producing that piece of embroidery. Most of them have no idea. I know that I did not until I started keeping track and to this day, I time out everything that I do. This is the only way that you can accurately start creating your profitable pricing structure.

After I started keeping track of all of my artwork setups, I soon learned that I needed to be charging for the setups that I had been giving away. I had thought to myself, “I am just setting it up in my software using my fonts, so I do not have to charge the customer for this. I am not paying out a digitizing fee to anyone; I will save the customer some money!” I did not even realize at the time that I was the one actually paying for this work! How ridiculous that was! I was saving him money while I was not getting paid! Once I realized that fact, I started charging for all of my setups except my name setups. I created templates for those so it only took me seconds to create a

name, but I also had a minimum charge to do names that covered this actual setup charge!

Artwork Tracking & Timing Form

Job Name	Job No.	Date Beginning			
Type of Fabric	Date Sent to Digitizer				
Finished size of Design	Digitizer	Date Ending			
Location on Garment	Received from Digitizer				
Design Format	Stitch Count				
Design Production Step	Time start	Completed	Minutes	Total hours	Cost
Talk to customer about design					
Plan out the design					
Layout the artwork if using Artwork Program					
Email artwork to customer for approval					
Set up Design					
Prepare design to send to Digitizer					
Digitizing or Editing					
Run off the Sample Design					
Edit Design					
Run off the Sample Design					
Email Design to customer for approval					
Fill in the Embroidery Room Worksheet					
Prepare job folder with instructions for Production					
Staple all paperwork together for billing					
Total time spent on job					
Design Cost from Digitizer					
Total Cost of Design ready for Production					
Did you have camera ready artwork?					
Was a stock design used for this design setup?					
Is this design being used on any other type of fabric?					
Was there any other problems with this job? List all problems					

Keep Track of Your Embroidery Machine Production

I have created a form for you to help keep track of your Embroidery Machine Production. I have formulas all built into this form for you. You will want to use it to schedule your jobs and it will give you the total time that it should take to do each job or an approximate time. All machines are a little different and all businesses processes can be a little different depending on your niche, but for the most part, this form is going to be an excellent tool for you to use and keep track of your production. Download it and start using it as soon as you start taking in orders for your customers.

You will put the following information into the right columns:

- Number of pieces in the order
- Stitch count
- Machine Speed
- Number of heads

- Set up Time - Threading, loading design, changing needles, and changing frames if need be.

It will automatically calculate the following for you:

- Loading & unloading garments into the machine
- Running time
- Color Changes
- Trims
- Thread breaks
- Hooping Time
- Applique Time (If applicable)

If you have any type of error that has been caused by the machine or design during production you must keep track of that. The operator must keep track of each time the thread breaks, which needle, where in the design, and on which head. All of that information helps to trouble shoot what the errors are or how to avoid them the next time the job is run or even on the next job, depending on what is happening with the machine.

Embroidery Machine Scheduler

	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
1	Design Name	Number Heads	Stitch Count	Numb. Runs	Total Runs	Machine Speed	Run time Each	Set up Time	Hoop Load & UnloadTime	No Color Changes	Color Change Time	No. Trims	Trim Time	Thread Break Time	Hooping Time	Applique Pieces	Applique Set time	Total Job Minutes	Total job Hours
3	Hemlock SC	1	25000	12.00	12.00	750.00	33.33	15	6	5	10.02	5	4.98	6	21.12		0	463.12	7.72
4	Bulls Head	2	3200	5.50	6.00	750.00	4.27	15	5.5	0	0	16	7.304	6	19.36		0	78.76	1.31
5	O V V	2	54000	1.00	1.00	700.00	77.14	15	1	12	2.004	5	0.415	1	3.52		0	100.08	1.67
6	CV Tennis	15	6300	2.40	3.00	500.00	12.60	45	18	1	0.501	6	1.1952	22.5	63.36		0	188.36	3.14
7	CV Tennis	8	6300	4.50	5.00	700.00	9.00	30	18	1	0.835	6	2.241	20	63.36		0	179.44	2.99
8		1	36000	1.00	1.00	700.00	51.43		0.5	9	1.503	65	5.395	0.5	1.76		0	61.09	1.02
9		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
10		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
11		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
12		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
13		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
14		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
15		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
16		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
17		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00
18		2		0.00	0.00	700.00	0.00		0		0		0	0	0		0	0.00	0.00

Fill in all of the embroidery orders that you have as you get it and you will know how many jobs you have in house at all times and how long each one is going to take.

Creating Your Pricing Structure

You need to create a pricing structure that will adapt to any type of situation. For example, some customers will come into your shop with their own items

to be embroidered, while other customers want to purchase their items from you along with the embroidery.

Each one of these situations requires a different price list. You are not making any money on the customer's items so you must have a price list where you are charging them more money than if they purchase their items from you.

I always advise a new embroiderer not to take in contract work from dealers. This is a no win situation for them. They cannot compete with the larger embroiderers and when trying, they become very discouraged.

I have one student that tried after I advised him not to do it. A sporting goods store approached him to do their work and he soon discovered that he could barely break even on those jobs. The dealer does not want to pay much for the embroidery because they like to dictate how much they will resell items for. If you are not well versed in what you should be charging, you soon discover that you cannot win in this type of situation. You have got to be in control!

After a short period of time, he took my advice as he discovered that this was not a worthy or profitable path to take. To this day, after 8 years, he only offers retail pricing, works with small businesses and organizations and is making over a million dollars a year with only 13 employees! His name is **Howard Potter of A & P Master Images in Utica, NY**. He has been one of my private clients for the past 8 years and his business has really boomed. He has won many awards and appears regularly in "**Stitches Magazine**".

Pricing is as Individual as your Business

Pricing is an art that must be developed for you, as an individual for your business and your niche market. Pricing is not as scary as it seems if you take into consideration all of the factors that go into doing business. What are some of those factors?

Overhead Costs-All of your fixed costs and variable costs

- Equipment Loan/Lease - Machine Payment
- Payroll-Including your Salary
- Taxes
- Business Insurance

- Health Insurance
- Accounting & Legal
- Rent
- Utilities
- Phone
- Internet Expense
- Manufacturing Supplies- Embroidery Supplies
- Office Supplies
- Office Equipment
- Bank Expense/CC Fees
- Freight
- Building Repairs & Maintenance
- Machine Repairs & Maintenance
- Website Expense
- Education-Tradeshows, Networking Events, Seminars, How To Programs - Coaching
- Advertising
- Automobile Expense
- Miscellaneous

Everyone has different wants, needs, expenses, markets, situations and equipment. Your formula must be created using your numbers and yours alone. You cannot charge according to what the business across town is charging. Many embroiderers make this mistake and do not stay in business very long because they are not making a profit.

All of these figures must go into a spreadsheet to find out what your breakeven point is. You must know how much each day, hour, minute and even second is costing you in your business. Without this figure you have no way of creating a pricing structure that is going to be accurate.

Once you fill in all of your costs, on your **Cost Analysis Spread Sheet** it will automatically give you your breakeven point.

Expense Spread Sheet

Before you can add all of your expenses to the **Cost Analysis Spread Sheet**, you must gather all of them on put them on an Expense Spread Sheet that I

have prepared for you. This way they will all be organized and you will have them right in front of you.

If you have not started your business, you will be gathering all of the expenses you will have that will be applicable to your business. I will go over them one by one.

I have prepared 12 sheets for you, one for each month, if you have been working in your business for any length of time or if you have doing small jobs for people and have been keeping track of your income and expenses.

If you have not started your business yet, then you will use only the first sheet to figure out what they are going to be and then we will have those figures to add to the **Cost Analysis Spread Sheet** to find out what your breakeven point will be. You will notice on the Expense Spread Sheet that there is a column for Purchases. This is only for your benefit to make it easy to add to your accounting software, which we will be covering in another lesson but you will be ready for it. Your Purchases are your items that you are purchasing to resell to your customers, such as T-shirts. This is not an expense because you will be getting your money back plus a profit when you resell them.

Expense Spread Sheet

Date	Description	Receipt Amount	Loan Lease Payment	Purchase	Payroll	Taxes	Insurance	Accounting Legal Expense	Rent	Utilities	Telephone	Internet	Manuf. Supplies	Office Supplies	Bank Expense	Incoming Freight	Building Repair Maintenance	Machine Repair Maintenance	Advertising	Automobile	Travel/Entertain Trade Shows Seminars	Miscell.	Total
1/3/15	Staples													12.42									12.42
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Now I want to go over and explain each expense to you to make it a little easier.

- **Equipment Loan/Lease - Machine payments** - You must allocate a payment each month for your embroidery machine & software. If you paid cash for your machine, you need to pay yourself back. If you borrowed from the bank, you will be using that figure for the monthly payment. If you do not add for a machine payment, you will not have any money allocated to help you build your business. I always recommend at least adding a \$399.00 per month payment. If you purchased a small machine that did not cost you the amount of a commercial machine, you still want to add in at least that amount to build on so you will have the money for your next machine. This is important.
- **Payroll-Including your Salary** - Important to add even a small amount for you to get started with. You want it to be reasonable and this figure is up to you. When I created the sample, I only used \$10.00 per hour. I am sure that you will probably want to add more than that, but it is up to you. Put in here whatever it is that you want to make per hour running your business. I talk about you being a professional, not an unskilled laborer, but the salary that I put in there is almost like an unskilled laborer. This is just a starting point while you are learning. Your salary will need to be increased as you have your skills all in place and are really ready to open for business!
- **Taxes** - These are your payroll expenses. It is usually about 30% above your payroll. It is very important to add in that amount to cover all of your costs. There is unemployment, workers comp, disability, your matching portion of the Social Security and Medicare plus vacation days.
- **Business Insurance** - You will need business insurance to cover your machine, software, all equipment and liability for your business. This is very important. You cannot afford to have something happen and you not be covered. Make sure that you have the security device for your software covered in the amount that you paid for your software. If it is not and something happens, you will not be covered. Extremely important. Sometimes the insurance companies do not understand the importance of this. That little piece of a USB drive does not look like

much but without it, you cannot run your software or your business!

- **Health Insurance** - This is only applicable if you have to pay for your own health insurance. If you are on a family plan that has nothing to do with your business, this will not be applicable. Just add a zero in that column.
- **Accounting & Legal** - You need to start with an accountant and this will be your accounting plus the legal expenses to get started. You will need to figure in a monthly fee for an accountant even though you may only see your accountant on an annual basis. You will divide the annual figure up into 12 months.
- **Rent** - If you are in your home, you are going to allocate a certain percentage of your mortgage for the rent of your space for your business. You will take your total square footage of the space that you will be taking up for your business and divide it by the total square footage of your home. This will give you the percentage of the mortgage payment that you will be using for your rent payment on your **Expense Spread Sheet**.
- **Utilities** - Add up all of your Utilities, in total. Take the same percentage from your total that you used for your mortgage payment.
- **Phone** - If you are installing a new phone for your business, this is the number that you will use. If you are using a cell phone for your business, this is the amount that you will add in for that column. I purchased a cell phone to use for my business and I allocated the entire payment to my business.
- **Internet Expense** - You must have internet access. If you are sharing your internet with your family, you will use the same percentage that you used for your other home expenses.
- **Manufacturing Supplies- Embroidery Supplies** - This is your thread, backing, bobbins, solvy and other supplies that you use during your embroidery process.

- **Office Supplies** - These are the office supplies that you will be using to run your business, computer paper, ink cartridges, postage for mailing.
- **Office Equipment** - Take the amount that you spent for your office equipment that you purchased and divide it into 12 equal payments. If you did not have to purchase any, you will still want to put a figure in here to allocate for future purchases. Unfortunately, Printers and computers need to be replaced regularly.
- **Bank Expense/CC Fees** - All expenses to the bank, bank statement expense, credit card fees. This does not cover over draft fees. That comes out of your pocket or your profits, so you must be careful of that one!
- **Freight** - This is all incoming freight. This is the freight for your supplies that come in or your purchases or anything that you order for your business. This can even be the freight on your office supplies.
- **Building Repairs & Maintenance** - This is the expense that you will incur in your embroidery business space. If you need to purchase some garbage cans or paper towels, paint or curtains, or anything that you need to maintain that space; those expenses will go into this category.
- **Machine Repairs & Maintenance** - You must allocate a few dollars each month for embroidery machine repairs and maintenance. If you purchase an annual service contract, you will divide it up into 12 months and place that figure in this category. Each time you need to purchase something for your machine, it will go in this category.
- **Website Expense** - You may not have any expense for this to start with, but it is best to add even a small amount here, because you will soon be needing a website and money will need to be set aside for that.
- **Education-Tradeshows, Networking Events, Seminars, How To Programs - Coaching** - Learning all that you can when you are running a business is very important. Education is ongoing. It does not stop once you get started, you need to be continuing your education on a constant basis. Things are always changing, how we do business, supplies,

products, methods and it is very important to keep up on it. I have been in this business for over 37 years and I still have a business coach. Actually I have 2 of them for different areas of my business. You always need to be looking for that person that has been there and done that to help you get to the next step. This is huge in the growth of your business!

- **Advertising** - This is where you will put your expenses for your business promotions.
- **Automobile Expense** - Keep track of your expenses as you go to the office supply store or traveling to an event. This is all part of your business expenses.
- **Miscellaneous** - This is where you will place the odd expenses that only occur one time and do not fit into any of the other categories, but are still an expense towards your business.

You will fill in your own figures	These figures are based on running your business for 1 hour each day	
CATEGORY	MONTHLY COST	YEARLY COST
EQUIPMENT LOAN/LEASE	\$399.00	\$4,788.00
PAYROLL	\$1,200.00	\$14,400.00
PAYROLL TAXES	\$360.00	\$4,320.00
BUSINESS INSURANCE	\$45.00	\$540.00
HEALTH INSURANCE	\$0.00	\$0.00
ACCOUNTING/LEGAL	\$99.00	\$1,188.00
RENT	\$100.00	\$1,200.00
UTILITIES	\$77.25	\$927.00
TELEPHONE	\$85.00	\$1,020.00
INTERNET EXPENSE	\$25.00	\$300.00
MANUFACTURING SUPPLIES	\$75.00	\$900.00
OFFICE SUPPLIES	\$30.00	\$360.00
OFFICE EQUIPMENT	\$42.00	\$504.00
BANK EXPENSE/ CC FEES	\$25.00	\$300.00
FREIGHT	\$60.00	\$720.00
BLDG REPAIR & MAINTENANCE	\$25.00	\$300.00
MACHINE REPAIR & MAINTENANCE	\$25.00	\$300.00
Website Expense	\$76.00	\$912.00
ADVERTISING	\$35.00	\$420.00
AUTOMOBILE EXPENSE	\$60.00	\$720.00
TRAVEL/ENTERTAINM/TRADESHOWS	\$10.00	\$120.00
MISCELLANEOUS	\$25.00	\$300.00
YEARLY TOTAL	\$2,878.25	\$34,539.00

MISCELLANEOUS	\$25.00	\$300.00
YEARLY TOTAL	\$2,878.25	\$34,539.00
NUMBER OF WEEKS PER YEAR		48
WEEKLY COST		\$719.56
NUMBER OF DAYS PER WEEK		5
DAILY COST		\$143.91
NUMBER OF HOURS PER WEEK		30
HOURLY COST		\$23.99
NUMBER OF SEWING HEADS		1
AVERAGE SPEED PER MINUTE		750
AVERAGE PRODUCTION MINUTES PER HOUR		45
TOTAL AVERAGE STITCHES PER HOUR		33750
COST PER STITCH		0.00071
COST PER THOUSAND STITCHES		\$0.71
SAFETY FACTOR / PROFIT		50%
<i>New Bottom Line Price Per 1000/sts (Best Price)</i>		\$1.07

Download the **Expense Spread sheet** that I have provided and get it all filled in and ready for your **Cost Analysis Spread Sheet**. Then download your **Cost Analysis Spread Sheet** that I have provided and transfer the figures from the **Expense Spread Sheet** to find your **Breakeven Point**. You can take the sample that I have created and save that onto your hard drive and then then copy it to replace my figures with your actual figures. You will then have your own breakeven point.

Now that you know what you have to produce per day to pay all of your bills it is time to figure out how you are going to accomplish that. At the bottom of the **Cost Analysis Spread Sheet** you will see where you have the option to change your days per week, hours per day and even minutes per hour that

your machine is actually running. You are only making money when your machine is running, not when it is sitting here while you are working on a design.

Figuring Your Basic Job Costing

If this is a part time business for you, you need to figure out how many hours a day or a week you are going to be devoting to your business. When you have your **Breakeven Point** figure per day, and the amount of hours per day or week you are going to run your business, you need to divide your Breakeven point by the amount of hours per day you will be running your business. Then you will divide the Breakeven point per hour into minutes. **This is going to give you your costing per minute.** A very important figure!

If you are working an 8 hour day but you figure out that on that 8 hour day your machine is only running a total of 4 or 6 hours, you must divide your total daily breakeven point into the 4 or 6 hours to arrive at your true **Breakeven cost per hour**. Divide that cost up into minutes. You will now have a true cost per hour that you figure your pricing on for stitch count per minute of machine running time. **Download the Production Tracking & Timing form to use to keep track of the times for your processes.**

- **Set Up Process** - Figure out approximately how long it will take you to set up for a new job. This is the amount of time from finishing up one job and starting a new job. It will consist of loading the new design into the machine, setting your colors, hooping that first item and placing it into the machine. All of this together can be counted as your set up time. The machine is not running at all. You may have to gather some supplies, change a needle, or even change the thread on the machine to the right color cone of thread.

Your goal here should be to keep it running 45 minutes out of every hour that you are working your business. When you are first starting you may not have enough work for this, but just remember, this is your goal! This set up time has a cost associated to it. Multiply the total amount of set up time by your cost per minute for running your business. This is the cost of your total set up time. You only have 1 set up time per job.

- **Production Process** - Sew out a basic design such as one that is 6,000 or 8,000 stitches. Time out how long it takes to sew it out including all of

the trims, starts and stops. **Write it down.** You need to find some average times here. Sew out one that has only one color. Next sew out another one that has 4 or 5 colors, etc. **Write it down.** This way you will get a better idea as to how much more time it takes to sew out a design after the machine changes colors 4 or 5 times than it take sewing out a design with only 1 color. This way you will know long much longer the trims and color changes are taking. This is important. If you have multiple pieces in the order, continue until they are all finished.

Many people just charge by the stitch count, and yes our price list is also by the stitch count, but there are other factors built into the equation such as the color changes, trims, starts & Stops.

After you have sewn out a 5 color design, write down how long it took for the entire process. Multiply the total time that it took for the design to sew out by the cost per minute for running your business. This will be your total cost for running the design.

- **Finishing Process** - You need to time how long it is taking for you to trim off your backing, trim the threads, steam and remove the Solvy, and then package the item. All of this time is in addition to the running time. This is your finishing time. Multiply your finishing time by the cost per minute for running your business. This is the total cost for finishing.
- **Total Cost of Job!** - Add these 3 items together; **Set up, Production process, Finishing Process** and you will have your **total cost for the job.**

This is not the selling price of the job; this is only your cost. Now you have to figure out what it is you want for a profit. I would add at least 50% to the cost for a profit. You are in a business to make a profit, start out with a 50% markup right from day 1. You will add this profit point to your cost for your final selling price.

In my sample, the cost on the **Cost Analysis Spreadsheet** is \$23.99 per hour and that equates to \$.40 per minute. Adding a 50% profit is an additional \$.20 per minute for a total selling price of \$.60 per minute. If it takes you 1 hour to embroider 4 shirts from the beginning of the process to the end of the last

process, your cost is \$6.00 per embroidery. If you add the 50% additional, the selling price will be \$9.00 per embroidery.

There is one other cost piece that we do not have figured in here. That is the cost of waiting on the customer at the beginning of the process and at the end of the process. This can add a lot more to the cost depending how much time you are actually taking with the customer. This is something that really needs to be thought about and we will go into that part a little later but you can compensate for that by adding a few more percentage points to the profit such as 75% instead of 50%.

Creating a profitable embroidery pricing structure is not hard, but it does take some time to get all of your figures together so that you know exactly what your costs are on a monthly basis and then doing those very crucial timings!

You just have to remember that every second you spend in your business; it is either costing you money or making you money. Which do you want?

Combining Garment & Embroidery Pricing

If you are selling garments to your customers, you will figure your cost of the garment from the distributor, add on shipping and then add a markup to that. I usually work on a 40% to 50% markup after both the cost and shipping has been added. Once I have that figure, I will then add the price of the embroidery.

Items Brought in by Customers for Embroidery

If you are embroidering garments that customers have brought in to you, you will need to add a higher profit percentage to your embroidery price. You are not making anything on the garment so you need to have a higher markup on the embroidery.

Next in the “How To Start Program” I will be showing you how to create scenarios to figure out your projections. It will be much easier for you, if you do some practicing with samples on some different designs that you have purchased to come up with the amount of time that it is actually costing you per 1000 stitches. After you have run many samples with different stitch

counts and different amounts of colors in the designs, you can then figure out what you stitch count cost is and what you actually want to charge per 1000 stitches. On the cost analysis spread sheet it does give you what the computer figures it should be per 1000 stitches, that is only accurate if it is only a 1 color design with no complications, trims or stops and starts of any kind. That is not usually the case, so it is very important to time out many designs to be able to come up with a more accurate price.

Whatever you do, **DO NOT** go by the old rule of \$1.00 per thousand stitches. That seemed to be the norm for retail pricing for many years! That is not going to work for you. You will end up losing money and that is not what you are in business for!

Use the “**Basic Price List**” that I have provided to get you started if you are already taking in jobs. This will make it easy for you, but get started on all of your timings so that you will have a better idea as to what you should be really charging based on all of your own costs and the profit that you need to make for your business! **DO NOT SKIP THE PROCESS! Your Business will suffer as a result!**

Homework

- Download all forms
- Gather your expenses on the Expense Spread Sheet
- Transfer totals to the Cost Analysis Spread Sheet
- Go through timing each one of your processes!

DO NOT SKIP THE PROCESS!
Your Business will suffer as a result!

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