

Create Your Embroidery Business Growth Plan



Creating Your Embroidery Growth Plan
Part 1-Creating Your Projections

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Module 4 - Create Your Embroidery Business Growth Plan

Part 1 - Creating Your Projections

Learning Objective: Create Your Monthly Projections, Your Sales Forecast & Cash Flow Statement

When you are creating your Projections, you want them to be as true as possible. This information is going to be the basis of your Sales Forecast. You want a tool that you can actually use not some pie in the sky forecast just to look good. There are a few things that you need to remember as you are creating your scenarios for your Projections

You will use your **Embroidery Monthly Projection Worksheet** and your **Embroidery machine Scheduler** along with your price list in order to be able to figure more accurately for your projections.

- ✓ How many hours a day you are actually running your business.
- ✓ How many hours a day or minutes per hour your machine is actually producing
- ✓ How much time you have for design creation-you must be realistic here. If you are a one-person operation and you are running your machine and setting up designs also, you must figure out how much of that machine production time you are using up for design creation. If you are a multi-head operation and have machine operators that only operate machines, then you will not need to figure any time for design creation. You will be working with machine production time only.
- ✓ Figure some long running jobs and some short running jobs.
- ✓ Figure some jobs as service only. (you are only supplying the embroidery on their garments) If you are offering wholesale pricing as

in working with a promotional products company that will be reselling the products with your embroidery - This is Wholesale Priced Embroidery.

If you are offering the embroidery to anyone that is providing their own garments for their own use, this is Retail Price Embroidery.

- ✓ Figure some jobs as garment & embroidery combinations. You are selling them the garment and the embroidery in one package - This is Corporate Priced Embroidery
- ✓ Work with job quantities that you normally work with, but plan for large, medium and small jobs. What do I mean by large, medium and small jobs, only you can predict that. This all depends on how many machine heads you have and what your average job order size is. If you are attempting or planning on going after larger jobs, then include some scenarios for them also, but be realistic as to when the time frame is for your business.
- ✓ If you have a seasonal business, then make sure you allow for this in your Sales Forecast. Some months will be higher when you are in season, and some months will be lower.
- ✓ Make sure that you are aware of your breakeven point. By that I mean, how many embroideries you need to produce in a day in order to create a breakeven cost for the day. This is extremely important. This daily figure can be seen on your Cost Analysis Spreadsheet. This Cost Analysis Spread Sheet is part of my Embroidery Pricing Program.
- ✓ Keep your embroidery service income separate from your merchandise or Resale income.
- ✓ Add in your design charges. Do not include them in the price of the embroidery
- ✓ Add your shipping income (shipping to the customer) to the bottom of each month.

If you have completed my “**How to Price Embroidery**” program and have your current pricing in place you can use your price list that you have already created to create your projections. There is no need for you to go through the Cost Analysis sheet or the Cost Analysis Base Month sheets. The Basic Price List will not pertain to you either. You already have your price list. Use your own price list and the Scheduling program to figure your projections.

As you are figuring your garment & embroidery job combination orders or scenarios, you need to figure the markup that you want to make on the garment alone. You also need to figure a markup on the embroidery. If you have a large markup on the garment, you can lower your markup on the embroidery if this is necessary to get a job. For a Sales Forecast, you want to make it as conservative as possible, so your markup on your embroidery should be lower. This way you will have a lower figure and it will help you to be more realistic in your expectations.

If you are working with a scenario of providing the embroidery alone on a customer’s supplied garment, you will need a markup on the embroidery. For a Retail job, (a club, organization, school, small business or anyone that is bringing in their personal garments for embroidery) I would suggest a 100 % markup.

For contract work or wholesale work, (the customer that sends in garments for your embroidery and he is reselling the garments and the embroidery as a package, I would suggest at least a 25% markup if you are a multi-head shop and 50% if you are a single head machine owner, more if you can get it.

For the Corporate customer, (the customer purchases the garment and the embroidery from you) I would suggest a 50 to 75% markup. For you Sales Forecast, use a 75% markup for an average.

In your figuring, your 50% markup would be your breakeven cost times 1.50, your 75% markup would be your cost times 1.75 and your 100% markup would be your cost time 2. Technically, it is very hard to even breakeven if you are doing embroidery alone. When you are doing contract work people expect that you are to be doing the embroidery at a lower rate, but you simply

cannot afford to do this. Example: Cost - times 1.5 equals your markup if it is a 50% markup.

I discovered through lots of experience and working with other embroiderers that it is very hard for a small retail shop to make money doing contract work alone. In order to make a profit you need to be selling merchandise and marking that up at least 50%. You must create a balance between your embroidery markup and your merchandise markup. If you are working with a very low embroidery markup then you must add a higher markup to your merchandise. If your customers are complaining they will have to find an embroiderer that works on a lower margin, just say OK, I am sorry I cannot help you. That other business will not last long if they are constantly working on low margins! There is no way for them to grow.

Part 2 - Creating Your Sales Forecast

Your sales forecast is the part of your business plan that you will use the most. Your business is measured by its growth in sales, and your Sales Forecast is what you will use to create your cash flow statement along with your Cost Analysis to control your expenses, profits and growth. The sales forecast is the first set of numbers you'll track vs. your actual use. This is the most important set of numbers that you will create. This is true whether you have past sales to start with in your plan or you are starting from the very beginning.

Sales forecasts can be based on three types of information:

- ✓ **What customers say** about their intentions to continue buying products from you
- ✓ **What customers are actually doing** in your market
- ✓ **What customers have done** in the past in your market

The only way that you can accurately create a sales forecast is to send your current customers a survey. The easiest way for you to create your sales forecast is to use the figures that you have from your past sales and add a small percentage for the next year. This will also act as a goal to reach. Many people will set a goal higher than a Sales Forecast to ensure that they actually reach the figures that they have forecasted.

Going through your past sales records and creating your Embroidery Monthly Worksheet is the easiest way to create a fairly accurate Sales Forecast. If you have no record of sales then you are going to have to start off small and add a small percentage each month. It is easier to do this by creating the job scenarios on your Monthly Worksheets.

The figures from your Embroidery Worksheets and your Other Department worksheets will flow into your Sales Forecast.

The **Green numbers** on your Worksheets for your Embroidery Revenue will flow into the Embroidery Sales portion of your Sales Forecast.

Your Brown Numbers on your Worksheets for your Garment Revenue will flow into the Resale portion of your Sales Forecast.

The **Fuchsia Numbers** on your Worksheets will flow into the Purchases in Cost of Goods on your Cash Flow statement.

The **Red Numbers** are signifying the Total Job Revenue. They do not flow anywhere, they are just so that you will be able to pick out your Total Revenue in a hurry.

The **Purple Numbers** on the Other Department Worksheet will flow into the same named columns on the Sales Forecast. I have not broken down the Resale and the service for the other Departments. You may want to do that. You can make a copy of the Embroidery Worksheets and substitute the names and the figures to reflect the ones for the other Department sales that you may offer.

The Designs portion and the Shipping Income portion of your Sales Forecast will need to be filled in with whatever you are bringing in for sales. For the designs, this is the number that you are charging the customer. If you are including your digitizing or design setups with you embroidery, you need to rethink that and start charging for them. You are losing money by offering these for free. You cannot afford to do this!

The shipping usually is approximately 7% of your sales however; it may not be for you. It all depends on how much you ship out. This is a figure that you will need to come up with. This is the figure that you charge your customers for shipping. I have it figured at 4 times a week charge. This total monthly income for **Shipping Revenue** will flow into the **Shipping Revenue** portion of the **Cash Flow** statement.

Your **Teal Numbers** -Sub Total Revenue on the Sales Forecast will flow into the **Sales Revenue** of the **Cash Flow Statement**.

Part 3- Creating A Cash Flow Statement

Your Cash Flow Statement has several categories or parts to it.

- ✓ Sales
- ✓ Cost of Goods
- ✓ Selling Expenses
- ✓ Operating Expenses
- ✓ Income before Taxes
- ✓ Provision for Taxes (Approximately what you will owe in taxes)
- ✓ Total Income after Taxes
- ✓ Depreciation Expense
- ✓ Loan Payments
- ✓ Total Cash Available

At the top is the **Sales Revenue**. You will have 3 lines for this **Revenue** category.

- ✓ **Sales Revenue**
- ✓ **Shipping Revenue**
- ✓ **Total Revenue - combination of your Sales and Shipping revenue.**

Your Sales Revenue and Shipping Revenue will automatically fill in from your Sales Forecast.

All of your expenses from your Cost Analysis Spread Sheet will flow into the Expense portion of this sheet. You will add the appropriate expense to the section on the statement where it is applicable. You have 3 expense categories.

- ✓ **Cost of Goods - The Purchases will automatically fill in from your Embroidery purchases spread sheet. If you have purchases for the other Department areas of your business, you will need to change this and add all of the purchases figures together and fill in that area. The Manufacturing Supplies should be a percentage of your sales and the Freight will also be a percentage of the cost of your purchases. You can determine this by the invoices from your suppliers.**
- ✓ **Selling Expense**
- ✓ **Operating Expenses**

Both of these areas will be taken from your **Cost Analysis Spreadsheet**. You will just match up the costs on the Cost Analysis to the same Cost lines on the **Cash Flow Statement**.

Each section will have a total.

Formula for Cash Flow Statement

- ✓ **Sales-Cost of Goods.** Total Cost of Goods and deduct total cost from the Total Sales figures. This will give you your Gross Profit.
- ✓ **Total of each Expense category** will be deducted from the Total Revenue for your Income Before Taxes.
- ✓ **Sales-(total of Cost of Goods + total of Selling Expense + total of Operating Expense) = Income Before Taxes**

Your taxes are figured differently from state to state and country to country. You will need to find out what this figure is from your accountant. You will want your accountant to take a look at your cash flow statement to see if he or she sees anything that is not looking like it should or something that will bring up a red flag.

Your Actual Cash flow is the Month 1 balance. The Month 1 balance is then added to the Month 2 balance and this continues through the entire 12 months period.

I hope that I have given you enough information to get your projections, cash flow statements together.

This is a huge lesson, but it is going to pay off in dividends when you get it finished.

Action Steps

1. **Quick Win: Go over all of the information to keep in mind before preparing your projections-Discover what is your most profitable type of embroidery?**
2. **Create your Embroidery Monthly Worksheets**

3. Create Your Sales Forecast

4. Create Your Cash Flow Statement