

UNDERSTANDING *Embroidery* PRICING

HOW-TO

Price your embroidery
services profitably

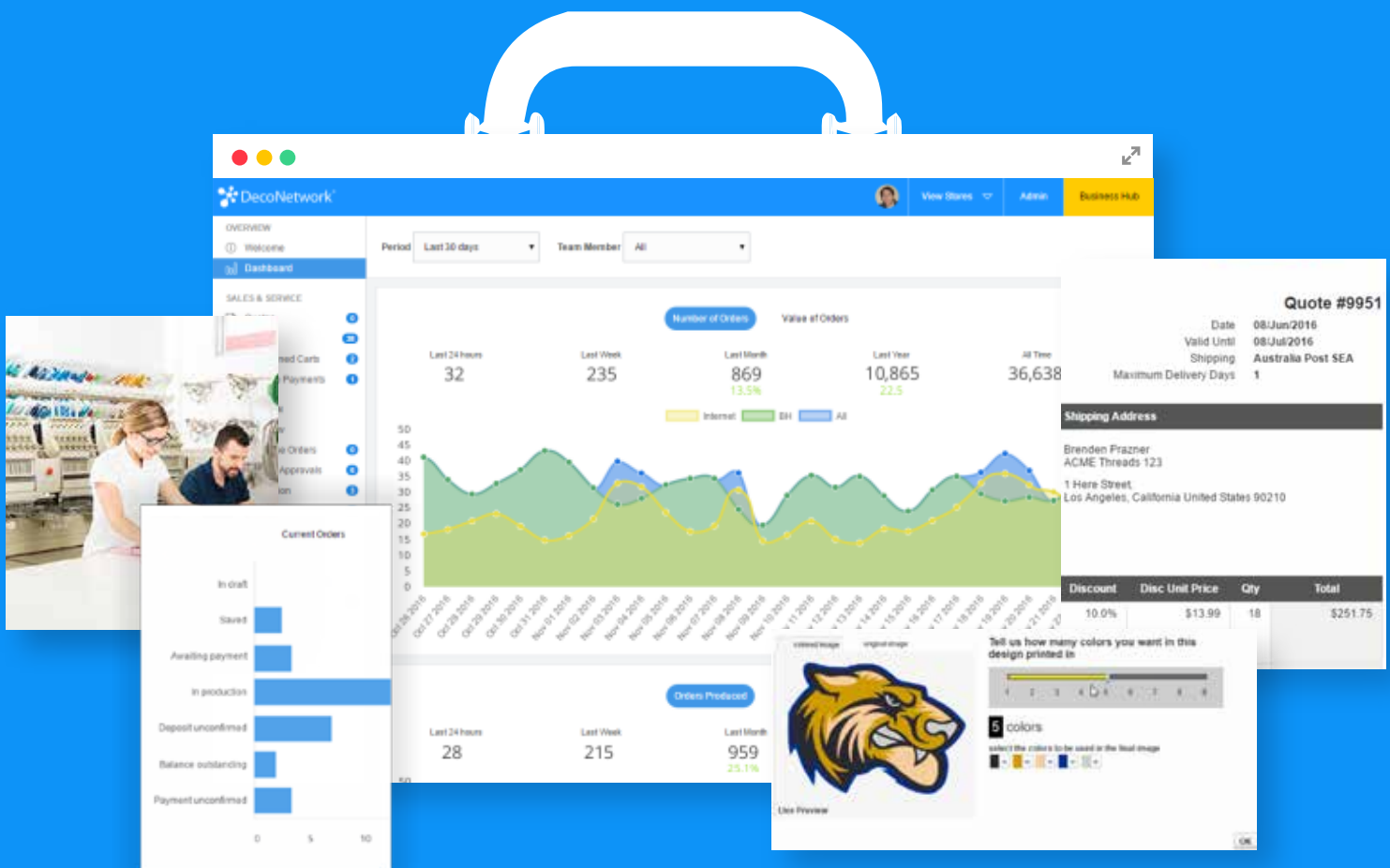
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Welcome

“Find your unique value, dare to care for the customer’s experience, and be audacious enough to charge what you deserve.”

Getting paid adequately for your work is a necessity. Everyone, from the hobbyist just starting to sell embroidered products piecemeal in a home-based shop to the production decorator cranking out dozens of pieces at a time on a fleet of multi-head machines has to face the same question when deciding to offer their services;

What should I charge for my work?

As simple as the question of pricing may sound, it’s more than just a mathematical equation that keeps your shop from going under. Setting prices for your decoration opens up a world of research, reckoning, and sometimes even a little soul-searching about what your work and your time is worth. While it’s true you have many figures to consider when setting your pricing, the profit-driven information provided in this eBook will help you establish a structure that can do more than just keep you in business.

By leading you through critical questions you need to ask about your shop, providing insight into how and why decorators price as they do, explaining the difference between cost and price, and encouraging you to think about the value you provide, this eBook will guide your first steps to being properly compensated, creating a long-term mindset for maintenance and growth, and to feeling more at ease with your pricing decisions.

With that in mind, let’s get down to business. :)

Erich Campbell

PARTNERSHIP MANAGER (and Long-Time Digitizer/Embroiderer)

Before We Get Started:

EVERY SHOP IS DIFFERENT

You will likely find that the costs for your shop are very different from those used in the sample calculations in this eBook. If you are lucky enough to live somewhere with inexpensive property costs or you are working from a home-based business and thus have a lower overhead, you may find that your 'minimum to maintain' is much lower than what other shops would need.

These baseline estimates are not meant to give you numbers on which to base your pricing, so much as to illustrate the means you can use to do so yourself. Make sure that you take the time to analyze your own position throughout the process of establishing pricing; your region, equipment, niche, and individual value propositions will all come into play and can mean that your pricing may be very different from that of someone roughly in a similar position in another state or even another city.



Doing the Math

ESTABLISHING A PRICING FOUNDATION

Those of you who read the introduction are likely scoffing at that title; 'I thought you said this was more than just some math problem!' While there's more to pricing than math, the first step to proper pricing must include a little calculation. We'll start by clearing up misconceptions about cost and price, but we'll get down to numbers to establish the foundation on which we'll build our pricing structure.

Dividing Price from Cost



Price describes what the customer is willing to pay for your decorated garment; cost describes the resources it takes you to get that garment in-house and decorated.

While cost influences price, we need to remember that they are not one and the same. There is no fast equation that explains the difference in cost for a plain white t-shirt bought in a high-end fashion boutique as compared to a similar shirt we provide direct from our distributors.

You might assume that it's a matter of quality, but I personally witnessed a relabeling program that turned an industry standard ladies tee from a 6 dollar manufacturer's blank into a 60 dollar retail-priced blank through the addition of some 25 cents of ink and labor for a custom tag print and a folded 50 cent box. These shirts sold very well at that inflated price based solely on the reputation of the venue in which they were sold.

This illustrates handily that **price** can have very little at times to do with cost. While price can be hard to tack down, **cost** is something we can easily calculate. Without understanding our costs, we won't know what it takes to keep our doors open and machines powered up. That's why every workable pricing strategy starts with a reckoning of costs, even if prices aren't necessarily pegged directly to them.

The 'Minimum to Maintain'



The first step to ensure profit in any business is to figure out what it takes for said business to maintain operation.

Some suggest finding your 'break even' number, but the connotation of 'breaking even' can mean that you are taking in exactly what you spend directly on and in your business. That being the case, it's easy to see that 'breaking even' isn't actually enough to maintain basic operations, as it doesn't account for one of the most important resources every business must have; labor.

Even a sole proprietorship requires the labor of the owner/operator to survive, meaning said owner/operator must be free to expend the time and energy necessary to maintain the business.

This is why it makes more sense to find not the 'break even' point, but the **'minimum to maintain'**. For a sole proprietor, for example, the **'minimum to maintain'** would be enough to pay for all costs related to the business as well as a reasonable minimum wage for themselves that covers their work as an operator and sales/administration staffer.

It might sound extravagant, and though it's true that many businesses run at losses when they first start up, we aren't necessarily describing the actual money you will take home so much as we are using this number as a basis for calculating decoration pricing that is sustainable for the business long-term.

You should never aim to make less at full production capacity than what you need to keep the machines under a roof, properly maintained while paying the minimum necessary number of staffers you need to run them.

Even when your order volume won't currently make the money you want to allocate, it's a better idea to price with the express intention to have the money you'll need to grow your business. It makes far more sense to price sustainably, even if it means working harder in the selling and marketing arena to obtain the volume you need than to overly discount your work in an attempt to increase sales. Underpricing means you'll lose money on each job and/or drain your resources while spending your days working for the privilege.

Under Pressure from Overhead

Fixed expenses

Leases

+ Subscriptions

+ Internet

+ Insurance

+ Labor

= _____

To find your '**minimum to maintain**', you'll start by calculating your costs. If you have been in business for some time, you should already have numbers from your previous years with which to work. The following information is what you'll need to capture in your first months of operation if you are a newly-minted decorator.

Start by tallying up **fixed expenses**. These are expenditures that don't change from month to month, like leases on buildings and equipment, subscriptions to software as a service, internet and communications costs, insurance, and the like; don't forget to include labor- unless we're talking about one-time help or piece work, your labor costs should be roughly stable.


TIP

If your fixed expenses don't include some kind of budget for marketing this is as good a time as any to implement one. A business that doesn't market in some fashion doesn't grow. You need to sell, whether that's through classic means like door-to-door sample delivery and direct mail, or through more modern means like targeted social media advertising, so put aside something for marketing, even if your budget is small by necessity.

Variable expenses

Supplies

+ Utilities

+ Temp labor

+ Equipment

+ Repairs

= _____

Once fixed expenses are addressed, you'll need to track **variable expenses**; among these costs are the cost of supplies, utilities, temporary labor, and any miscellaneous or one-time expenses that occur as part of doing business. You may include repairs, though you may want to institute a fixed savings toward equipment repair and replacement, seeing that a breakdown of equipment prevents you from decorating; without decorating there's no money to be made at all.

If you have been operating for a year, the sum of these expenses will give you a total yearly operating cost. If you are concerned about incidentals you may have missed, don't fret. We're not looking for laser-precision so much as a guideline- if you have more data, you can plug all of the months you've been operating at the capacity you expect to maintain. We'll divide this number by the number of months from which you've collected data to give us a monthly average from which to do our initial calculation. If you have not been operating that long, add together the expenses from the months you do have and do the same process of division to boil it down to an average monthly cost.

Once you have a monthly average, multiply it by 12 to get your yearly cost. Once we have that cost, we know the absolute minimum amount of money your company must make per year to simply stay in business at the current level.



Production Possibilities

CALCULATING LABOR COSTS FOR DECORATION

Now that you have calculated your 'minimum to maintain', you need to calculate exactly how this amount needed to operate applies to how you charge for your labor. Logically, you know that there's a limited amount of work your shop can achieve in a given day. If you estimate the amount of available labor and divide your costs by the units of labor you can achieve, you arrive at a rough number that allows us to loosely estimate the cost of any decoration.

The Speed Limit

The first mistake many embroiderers make when calculating potential work is to assume they'll be running their machines at the maximum stitches per minute that they are advertized to achieve.

The truth is that even with a modern machine with a top speed of over 1500 SPM (stitches per minute), long stitches (which slow the machine), color changes, hooping, occasional thread breaks, and other intermittent stoppages make the average achievable SPM somewhere closer to 500 in a typical shop.

If you conservatively estimate that out of an average 8 hour production cycle, 6 of those hours are spent in actual production, we can only execute roughly 180,000 stitches per head, per day. Since we know that the average number of working days is roughly 251; running at this average speed every day means you can produce roughly 45,180,000 stitches on each head you run in a given year.

That huge number seems impossible to process, but if you structure your pricing based on the industry standard 1000 stitch increment, you end up with a possible throughput of

45,180 'thousands' in per head, per year

You can now take this number and your 'minimum to maintain' to calculate a baseline of exactly how much you must charge for each job to not lose money, based on the stitch count of the logo used as counted by 'thousands'. As many variables can alter our cost calculation, we'll run the equation with a non-specific number that relates only roughly to what a sole-proprietor's small, single-head shop might see.

If we imagine this conjectural small shop's 'minimum to maintain' to be about \$55,000 a year, we can figure our baseline price per thousand stitches that covers our minimums very easily.

To just make back that \$55,000, you would need to make roughly \$1.22 per thousand stitches with our single-head machine running for that 6 hours daily, provided you didn't charge for anything but decoration.

**NOTE**

If you want a more true accounting of your production capacity than you get from this rough 500 spm estimate, you can always engage in a time study. In a time study, you literally time tasks within your job from start to finish. Once you've timed your stitching, hooping, trimming, steaming, and packaging, divided stitching times by stitch count, and divided the time for all other tasks by the number of garments produced, you'll be able to calculate roughly how many stitches and how many other process you can achieve in a given hour.

By the Hour

Another way to calculate your initial price is by using hours of labor as our units; though basing our calculations this way requires us to have a more complete understanding of the time jobs take. Ideally, you'll need an accurate accounting the time your processes have been taking in production to find your base 'by the hour' pricing.

If you can time and establish an average for how long it takes to hoop a garment, how long it takes to trim/finish a garment, and add that to the time it takes to stitch a given logo, you can get a more accurate understanding of the number of minutes/hours any given garment takes to produce.

If you divide your 'minimum to maintain' number by the estimated work hours in an average year, you can then price any job based on the hours it will take to execute. With 251 work days in the usual calendar, each representing around 6 hours of labor, you have 1506 hours of work in this average year. Divide the sample 'minimum to maintain' of \$55,000 by the hours of labor available and you'll see that the sample shop must make around \$36.53 per hour of labor to fulfill its minimum needs.

If our time studies have shown that we can run, trim, and hoop three garments with 10,000 stitch logos in an hour, we need to charge roughly \$12.18 per garment to make our minimum.

This also means that if you have a job featuring a 1500 stitch monogram it will cost more than if the monogram was priced solely by a flat calculation of 1000 stitch units because processes like hooping and packaging don't take less time based on a lower stitch count. In this way, the hourly or time-based charges are more accurate to the labor done on each garment than a flat stitch-count based pricing model.

Establishing a Base

One way that decorators who charge by stitch count 'thousands' tend to combat losing out when counts are low is by establishing a 'base price' for any decoration.

An example would be that for any given garment, any number of stitches from 0-5000 starts at \$10 to decorate for a single piece, but every thousand stitches after that 5000 may be charged at \$1 per thousand. This base pricing helps to defray the costs of those processes like hooping, trimming, and finishing that every garment must go through that won't change in regards to the number of stitches in the design.

Moving beyond Minimums

When you finish calculating your costs, you should have a firm idea of what you need to charge just to avoid losing money or closing your doors. If your pricing structure isn't currently covering your 'minimum to maintain' you should be feeling concerned. Even if you increase your prices to more readily make your minimums, it's time to dream a bit bigger.

Not many people open a shop simply to cover costs and earn a low wage; in the end, you must make room for profit, if you want to enrich yourself and grow your business.

 SNEAK PREVIEW

Embroidery Features in DecoNetwork:

PRICING TOOLS THAT UNDERSTAND EMBROIDERY



DecoNetwork deals seamlessly with complex embroidery pricing, design and production requirements.

Price table			
	Quantity From	1	5
	Quantity To	4	9
Stitches			
From	To		
0	6999	\$ 8.16	\$ 6.60
7000	7999	\$ 9.12	\$ 7.50
8000	8999	\$ 9.40	\$ 7.80
9000	9999	\$ 9.78	\$ 8.10
Per +	10999	\$ 10.38	\$ 8.64

FLEXIBLE PRICE TABLES

Easily define embroidery price tables ensuring your website and sales team always use the latest prices and quote accurately. Price by quantity sewn and by the number of stitches in the design.

QUICK QUOTES AND ORDERS

Take advantage of a comprehensive catalog and presets. Product costs, decorating costs, digitizing fees, shipping costs and order totals are calculated automatically.



AUTOMATIC PRICING

Tired of the hack work of counting stitches on customers' uploaded embroidery images?

Digitizing fees can be calculated per number of stitches or you can set a flat rate digitizing fee.

Learn more about how DecoNetwork can revolutionize your business at:

www.deconetwork.com



Pushing toward Profit

CALCULATING LABOR COSTS FOR DECORATION

*“Profit is not something to add on at the end,
it is something to plan for in the beginning.”
- Megan Auman*

Building on our Pricing Foundation

You know what you need to survive, now you can build a pricing structure that makes your shop profitable. Most shops will work with a variation of calculated pricing that starts with the garment price, builds on that price with markup, and adds a price for decoration. How that markup is calculated can vary greatly from shop to shop.

Two of the many methods of calculating price stand out as among the most common; **Garment price + Markup + Decoration**, and **Garment Price + Profit-adjusted Decoration**.

As common as those practices are, a third uncalculated method is also frequently employed. We'll call it **Flat-Rate** pricing. By examining the construction of each pricing method and explaining the pros and cons of each, the following section will help you judge which structure makes the most sense for your shop.

Garment Price + Markup + Decoration

Model 1

Garment cost	\$5
+100% markup	\$5
Sub total	= \$10
+ Decoration	\$12.18
Final price	= \$22.18

In the first model, you start with the price you pay for a garment and mark it up by a percentage, adding the cost of decoration thereafter. For example, a garment costs your shop \$5, you mark it up 100% (often referred to as 'keystone pricing') for a blank garment price of \$10, then add a calculated cost of decoration. Our earlier example single-head shop had a calculated cost of \$12.18 for a 10,000 stitch logo to maintain minimum operational costs. Adding that to the \$10 price of the marked-up garment makes the final customer price \$22.18.

This model is serviceable for most shops, but can cause problems with more expensive blanks. Marking a \$5 garment up to \$10 is not likely to cause concern, but marking a \$40 blank up to \$80 before decoration creates a final price of \$92.18, pricing you well above even retail expectations. Even so, its simplicity makes it a popular option, particularly with the bulk of work for many embroiderers coming from the lower to mid-priced blanks that are unlikely to create many of those overly inflated prices.



PROS:

- Simple to calculate
- Standard in the industry



CONS:

- Makes too little profit on extremely cheap garments
- Increases prices beyond customer comfort on extremely expensive garments

Garment Price + Profit-Adjusted Decoration

Model 2

Garment cost	\$5
+20mins labor or	
10,000 stitches	\$20.67
Final price	= \$25.67

In this model, you pass along the garment price without markup, adding a decoration price adjusted for a predetermined amount of yearly profit.

For instance, for a profit of \$40,000 per year, your decoration price would consist of your 'minimum to maintain' cost for a year added to a \$40,000 profit, divided by the time your decoration takes to produce. In our previous example, our example shop needs to make \$36.53 an hour to maintain operations; to ensure a \$40,000 profit at full capacity, it would need an additional \$25.56 per working hour (calculated at 1506 per year as previously stated).

This requires the shop charge a total of \$62.09 per hour, or per the hourly production estimate of 30,000 stitches. At that price, a decoration that takes roughly 20 minutes or contains roughly 10,000 stitches, would have a decoration cost of \$20.67, added to the \$5 garment cost for a customer price of \$25.67.

A \$40 dollar garment with the same decoration maintains the decoration cost of \$20.67 for a customer price of \$60.67. Though costly, this price is more in keeping with customer expectations and standards than the \$92.18 in the garment markup example. Adding your profits to the decoration rather than the garment allows you to maintain the same pricing schedule for both shop-provided and customer-supplied garments, whereas shops that rely on garment markup often have to discourage customer supplied garments or price their decoration higher to compensate for the loss of garment revenue.

**PROS:**

- Maintains consistency independent of garment
- Makes estimating profits simpler
- Based entirely on your labor

**CONS:**

- Requires accurate understanding of time investment per task/process
- requires you to predetermine the profit for a full-filled year of production ahead of setting pricing.

**TIP**

*A less forecastable, but simpler variation of the Garment Price + Profit-Adjusted Decoration method is the **Garment Price + Marked-Up Decoration** method. This is much like a hybrid of the previous two, removing the need to set a calculated profit amount and replacing it with a percentage markup based solely on decoration. For instance, your \$5 garment is not marked up, but the decoration cost of your 10,000 stitch logo calculated at \$12.18 is marked up by 75%, making the decoration price roughly \$21.32 and the final cost of the garment \$26.32. As with any of these solutions, your desired percentage markup may vary. This simply allows for a pricing structure to be calculated without establishing a profit goal by the numbers.*

Flat Rate

Model 3a

Final price = \$25.00

(includes Gildan 85800 polo + left chest logo)

Flat rate pricing can take on a number of forms. First, there can be a **combined flat rate**; in this model, the decorator sets a price for a particular garment with an included decoration, usually with tightly controlled garment and decoration choices meant to control costs. For example, the decorator might specify a single type of shirt with a left-chest logo only, assigning that garment a single price with no visible calculation to the customer.

Model 3b

Polo cost \$10

Left Chest logo \$10

Sleeve logo \$10

Final price = \$30.00

A second form is the **per-location flat rate**, in which any garment can be chosen which may or may not be marked up, but the decoration price is a flat rate per location, irrespective of the the content of the decoration; i.e. one polo may be \$10, another \$15, but any left chest logo costs \$10 to decorate with any image whatsoever. The flat rate variation is the true **all-you-can-eat** model; the garment price is passed through with or without markup, but any decoration you do to said garment falls entirely within the defined flat rate.

No matter how one decides to execute on flat rate, the trade-off is pretty obvious when compared to a calculated pricing structure. Flat rate pricing makes quoting and customer interactions incredibly easy and fast, but you are likely to lose money on larger and more complicated images. Even when flat rates are adjusted to be reasonably competitive with calculated prices, they tend to remain profitable only when you have enough simple work taking less effort and time than the price can cover to essentially 'subsidize' the more difficult and time-consuming work that comes along.

You can attempt to offset this by pricing the flat rate according to more time-consuming pieces, but that means customers with simple designs will be paying an even higher rate that is likely not competitive with shops using a calculated method for the same work. The only other option is to specifically state the conditions and specifics of the decoration, limiting size, stitch count, and location, but that may take away some benefit of the ease of communication as customers contact you to clarify the restrictions and attempt to have you alter the deal.

**PROS:**

- Easy to explain
- Quoting is almost entirely done away with
- Requires no calculation

**CONS:**

- Less equitable pricing for simple work
- Risk of too many unprofitable jobs sinking your margins
- Restrictions can cause confusion

Are Two Heads better than One?

The sample calculations up to this point were done with a single head as the basis; it should be obvious that with increased capacity, these numbers can change drastically. With two heads, whether those heads are a networked pair of single-head machines or a purpose-built two-head machine, your available throughput will roughly double.



This means you can stitch around twice as many stitches per hour, and your 'Minimum to Maintain' price per thousand stitches when running at full capacity goes down significantly, even after taking into account the increased price of the machine lease and increased consumables. (Remember, each head will need its own cones of thread in the same colors as the others.)

The concern with adding multiple heads is that one needs to have enough work to fill said additional heads to see the full benefit of adding them. The other concern, particularly with larger, multi-head machines, is that small orders or orders with odd numbers will leave the machine running with only a small subset of the heads running.

The balance shops often strike is to have one single-head machine for small orders and the individual naming that is most often done one piece at a time by necessity, while maintaining one or more multi-head machines for larger volume orders. One can also elect to purchase several single heads and either lose the labor cost of individually setting up and running them or one can obtain single heads that have networking abilities that allow them to run in unison from one control center. Having the networked single heads may be more costly and definitely involves more overall complexity per machine, however, it allows a decorator the flexibility to split the pack to take on multiple small jobs or to set up some number of the machines for caps while the others run flat goods. This sort of flexibility can help in the quest to keep the order volume flowing and the machines at full capacity.

Volume Discounts: Turning to Tables



Volume discounts are a useful way to encourage customers to purchase in larger quantities. Large orders allow you to run machines at capacity without incurring the time cost of loading new files, rethreading, or switching out fixtures.

The reason we can give volume discounts isn't because we are willing to lose profits to secure larger orders; these jobs are actually more efficient, particularly when running multi-head machines. The fact that our vendors discount blanks with larger orders means that even if we base our profit on garment mark-up, the larger order will have more 'room' for discounting while maintaining profitability.

You can give volume discounts in one or both of two ways; based on garment volume and/or discounting the decoration based on stitch count. For both methods, you define thresholds that, once crossed, provide the customer with a lower per-piece or per-1000 stitch price, or both.

Volume disc. a)

<u>1-12 pieces</u>	<u>\$10.00</u>
<u>13-25 pieces</u>	<u>\$8.00</u>
<u>26-50 pieces</u>	<u>\$6.00</u>
<u>51-100 pieces</u>	<u>\$5.00</u>
<u>100+ pieces</u>	<u>\$4.00</u>

For example, you establish a base price for 1-12 pieces, which drops by a percentage when running 13-25, dropping again for a volume 26-50, and yet again for 51-100, and so on, with garments becoming less expensive per-piece as volume increases.

Volume disc. b)

0-7000 stitches	\$4.00
8,000 stitches	\$5.00
9,000 stitches	\$6.00
10,000 stitches	\$6.85
11,000 stitches	\$7.70

The same can be done with stitch count, starting from a base price of 0-7000 stitches with each additional thousand stitches incurring a flat fee of \$1.00, reducing to \$.85 cents after one reaches 10,000 stitches and \$.75 after one reaches 20,000, though this kind of stitch-count price reduction is not particularly common.

Combining the two methods means you can reduce the garment price and any stitch-count threshold prices with increasing volume. This 2-axis pricing matrix with garment quantity thresholds in the x axis (across the top) and stitch count in the Y axis (up the side) is usually referred to as a 'price table'.

Volume disc. a+b

Price Table Details										
Name	Rates		Columns							
price table	R		R							

Price Table										
Quantity From	1	5	10	25	50	100	250	500		
Quantity To	4	9	24	49	99	249	499	> 500		
Stitches										
From	To									
0	6999	\$ 8.15	\$ 8.03	\$ 8.41	\$ 5.62	\$ 4.58	\$ 4.14	\$ 3.90	\$ 3.03	
7000	7999	\$ 9.12	\$ 7.51	\$ 6.96	\$ 6.00	\$ 5.62	\$ 4.90	\$ 4.68	\$ 4.20	
8000	8999	\$ 9.40	\$ 7.33	\$ 7.32	\$ 6.54	\$ 5.94	\$ 5.34	\$ 5.04	\$ 4.44	
9000	9999	\$ 9.78	\$ 8.11	\$ 7.55	\$ 6.96	\$ 6.36	\$ 5.70	\$ 5.40	\$ 4.86	
Per =	10999	\$ 10.14	\$ 8.54	\$ 8.11	\$ 7.38	\$ 6.84	\$ 6.12	\$ 5.82	\$ 5.27	

A typical simple price table starts with the aforementioned 'base price' for a set minimum number of stitches in the Y axis, like 0-7000. This base price is intended to cover not only the cost of the time spent stitching, but the cost of the time it takes to hoop the garment and set up the job which doesn't change with stitch count.

After this, each thousand stitches in the design beyond the minimum costs the customer an additional, albeit much much smaller, flat fee. Rather than use set thresholds (5000, 10000, 20000) the way that we do for garments, the stitch count axis is often expressed simply as the base price with the additional cost-per-thousand as a steady rate that doesn't change with higher-count designs. In the X axis, there may be a minimum number of garments a shop is willing to take for an order, anything from 1 to 12 is common, after which prices drop by percentages at set intervals as previously described. An order of 12-50 pieces may cost 25% less, 51-100 piece 20% less, 100-150 might be 17% less, and so on.



Dealing with Digitizing

DIGITIZING PRICE STRUCTURES & BEST PRACTICES

Deciding how and when to charge for digitizing can be difficult. Whether you outsource your digitizing or do the work in-house, you'll have to decide both how to charge and how to convey the costs and benefits to your customer in a way that they can easily understand. By examining some pricing methods and concerns, we'll give you the information to determine your digitizing price structure and best practices.

In-House Digitizing Pricing: Per Thousand / Flat Rate / By Complexity



'Unser' graphic took *hours* to digitize/draw 43k stitches at a size of just 64 square inches.



'Road Devils' text, with the same overall area of 64 inches, took minutes to adapt from vector file has a 46k stitch count.

Per-thousand stitch pricing makes sense when running an embroidery machine; each stitch takes roughly the same amount of time to stitch. Such is not true of digitizing, in which a small and finely-crafted single-color engraving-like design may take several hours to digitize despite a very low stitch count, whereas a giant 100,000 stitch filled square may take less than 10 seconds to digitize. Flat rate pricing has similar problems.

Charging a simple single rate for a certain size design without regard for the time and difficulty the design represents is hardly equitable. The disconnect between the time it takes to draw elements and the number of stitches that go into large, fully-filled areas, means that trying to price digitizing by the thousand stitches or on a flat rate will leave you, as with flat rate embroidery, subsidizing the most time-consuming pieces by over-charging on the simplest ones.

Pricing by complexity is more equitable, though quoting involves guesswork and personal experience. To price on complexity, a digitizer must evaluate the art for a potential design and estimate the time it will take to render based on experience. This is a fuzzy calculation at best, but still gives you the best likelihood of charging enough to make the digitizing consistently profitable without saddling simple-logo customers with the costs.

Passing it On (and Marking it Up)



Once you've decided how you will calculate your price, it remains to be determined how you'll address that cost to your customer. One of the simplest ways for those outsourcing the work is to pass the cost directly to the customer without intermediary charges or markup, explicitly handing over the digitized file as part of the process.

Removing profit and ownership from this equation can soothe some customers' concerns over the 'setup fee', but it does mean that you have little recourse should your customer decide to take their file elsewhere for embroidery. The second drawback to this method is that it doesn't account for time you have likely spent in communicating and preparing the initial artwork for digitizing, let alone any time you may spend in testing and color selection.

You may elect to offset this by adding a markup to the cost of the digitized file, either in the initial order, or by instituting a policy that charges for that labor through a 'release fee' for providing the file and sample, so long as it's prominently stated before the customer orders.

The Loss Leader

Whether outsourcing or digitizing in-house, some shops will choose to waive the cost of digitizing in order to lower the bar of entry for new clients.

This can be done with the express agreement that the digitized file belongs to the embroiderer and/or can only be secured for use at another embroidery shop after paying a 'release fee' that covers not only the cost of communication, but the cost of the design work itself.



The concept of this loss leader is that your customer will pay off the loss of any income you might have gotten from the setup fees through consistent ordering once they are 'locked in' by your having their embroidered design on-hand and ready to use. You incentivize reordering through the fact that it's free to use their file with you, but costly to take it elsewhere. This method is more common with companies that digitize themselves.

Though they may see this as having no cost, seeing that there is no capital outlay, that view overlooks the cost of a digitizer's salary, the upgrade and maintenance costs of software and equipment, as well as the opportunity cost. Time spent digitizing, especially in shops where the digitizer may also have another role, is time not spent on another, possibly lucrative task.

The loss leader strategy is popular and can be effective, but those who use it best are aware of the potential return on the initial investment and guard their resources, including labor.

Spreading it Around

Shops may choose to divide the cost of digitizing, adding a small amount to the cost of each garment

across the initial garment order to 'hide' it from the customer. This is usually done to avoid discussions about 'set-up fees'.

Though this can be successful, you may find that it can incorrectly distort price comparisons from customers requesting quotes from multiple shops. Despite the other shop's willingness to add a digitizing fee to their quote, seeing a much higher per-garment cost on your quote may incorrectly represent your long-term pricing. A more up-front model that focuses on teaching the customer about the digitizing fee and explaining that it's a one-time expense will allow you to offer a future 'price drop' on the next order, seeing as it no longer requires a digitizing fee.

Add it Up: Additional Fees

Some circumstances should require the customer to incur additional fees; particularly those involving costly materials, techniques that require additional labor, or those instances in which a customer absolutely must take delivery long before your normal turnaround would usually allow.

Following are a few cases under which you might need to charge additional fees.



Water soluble toppings: When stitching on something textured, sometimes even minimally textured items like knit shirts with patterned surfaces, the quality of the stitching can be greatly increased through the use of a water-soluble film topping.

This topping sadly requires extra processing. Even when using a commercial garment steamer for the fastest removal, you'll have to account for the cost of the film as well as the 15 to 30 seconds per piece it takes for removal of the excess. It might not seem significant, but because the finishing can only be done on one garment at a time, a 100 piece job could take you anywhere from 25-50 minutes in finishing, depending on the nature of your design.



Three Dimensional Foam: Though three-dimensional foam designs are always priced higher than a comparable flat design due to the areas of satin stitching over the foam requiring twice the normal density and thus twice the usual stitch count in comparison to flat design, the need for applying heat and/or manually adjusting the foam to get rid of remaining fibers sticking out of the embroidery after removing the excess means that 3D foam designs should fetch a premium price.



Applique: Applique can save stitches, providing excellent coverage for large, filled areas, but despite the immense number of stitches you may save, you have to make sure that the cost of the material used, the time spent cutting either automatically or manually, and any time spent in pressing or otherwise finishing the applique is accounted for when pricing an applique design. Traditional stitched-on fabric appliques may not always need to be heat-pressed in finishing, but some do, and they all need to be cut unless they are purchased as pre-cut stock from a catalog of existing shapes.

Even with a simple method like 'rip-away' applique in which a heat-printing films have a satin-stitch

border sewn through sheet stock and excess ripped away from the outer edges of designs before a final heat-pressing should be timed. The simplicity of the process in that it does not require processing or pre-cutting elements doesn't erase the hand-work needed to clear the excess and the additional trip to the heat-press to make the material adhere permanently to the garment.



Patch-Making: Particularly for shops which build profit based on garment markup, it can be easy to under-charge for patch-making. That said, whichever method you use from a hot-knife, manually cut process to a pre-cut, water-soluble stabilizer carrier, even to adding a traditional hand-guided overlock stitched edge, patch-making requires a great deal of hand-work and finishing. Make sure to price for profit based both on the costs of specialty materials and the time involved in the labor.

Individual Packaging: When it comes to bulk orders, individually sorting and packaging garments for later distribution, particularly with clubs and teams, can be a profit center if properly priced. Do a time study to find out how long it takes to separate, pack, label, and account for a particular grouping of garments, and price to profit on the time spent.

In general, you should be on the lookout for any process that takes more time, effort, or materials than standard embroidery and make sure you are being paid sufficiently to make the time spent make sense for your shop. It's easy to take on creative challenges without thinking about the resources we'll spend directly and in lost opportunity while we tackle them.

Rush Fees

Justifying rush fees to customers can be frustrating, despite their seeming desperation to have something swiftly produced. There's a mindset problem behind how decorators 'sell' these fees; they are often styled as punitive rather than functional. You hear them colloquially referred to as 'PITA' fees, which I'll incorrectly render as 'Pain in the Accounting' so as not to offend. It might feel satisfying to levy a fee as 'payback' for the pain of a particularly quick turnaround, but the truth is that rush fees are intended to recoup increased costs you incur for speeding up or increasing capacity in production.

The customer doesn't know how full your schedule is; if the assumption is made, as it is with your pricing, that your queue is entirely full for normal work hours, a rush fee would be necessary because you'll have to keep staff on for overtime hours, secure temporary staff, or increase production capacity to make room for rush work.

There's no denying that our turnaround times have been forced into a shorter and shorter period, now averaging around 5-7 business days at the maximum, but there's no reason why you can't establish a rush fee for those same-day and overnight turnaround jobs. If you are afraid to displease a customer that regularly rushes you; think over the history of their orders.

- *How much does their work disrupt your shop?*
- *What opportunities have you lost in fitting their work into the schedule?*

- Have they caused you to give less than optimal service to another customer?

Answer these questions before you decide if their rush jobs are profitable. If it turns out they the disruption is minimal or you are profiting enough that the inconvenience is worthwhile, you can always elect to waive the fee for them.

That said, you should show them the waived fee, thus adding to the perceived value of what you provide. With the fee exposed, even if you elect to allow a free rush, the customer understands the value of the rush and, once you explain the labor equation, understands why those charges might be levied when the production queue is full.



Price versus Value

FROM SURVIVING TO THRIVING

No matter how you decide to price, the first thing to remember is that it's never a winning strategy to compete on price alone.

Though you must survey your local decoration shops and/or shops operating in your niche to get an idea of the prices your market will bear, trying to win customers through undercutting is a losing strategy long-term. Customers that hunt for bargains above all other considerations are fickle and will abandon you for the next ‘deal’ as soon as it emerges.

Even among large, contract shops for whom price is a major point of competition, there is still a desire to market on value. Whether they pitch their ease of ordering, the level of customer service they provide, or the quality of their work itself, they can teach you that there’s always room to brand your shop based on the unique value you provide.

It is critical to know what you need to charge in order to maintain operations and make a profit, but you can charge more for those valuable, unique abilities that make your shop uniquely what it is.

Whether that’s based in something conventional like offering a decoration method your competitors don’t or even being capable of extremely quick turnarounds due to your in-house art and digitizing staff and large production capability, or it’s based on something more intangible like your creative problem solving, your connection to the local community, or even your winning attitude; your unique value can translate to profit.

Everything you make, do, and every interaction you have with the public is part of your branding; if the experience you provide is something delightful, useful, easy, or otherwise improves the lives of those who purchase from your shop, you’ll find customers who value and want to contribute to that environment.

*“Know your costs, understand the math,
but in the end one of the most important
things you can do is to be you.”*

Find your unique value, dare to care for the customer’s experience, and be audacious enough to charge what you deserve.

Make the money that will allow your shop and your unique vision to survive and thrive.

What our customers say

Over 80,000 stores in 30 countries trust DecoNetwork to power their shop and/or ecommerce. Here is what just a few of our awesome customers have to say about DecoNetwork.



"The DecoNetwork platform has been a pivotal part of our online business. Having a great partner-ship and foundation have proven to be a perfect marriage and has allowed our business to rapidly expand without losing any sort of functionality in the platform."

Rick Hamilton, My Custom Tees



"The flexibility, power and features provided by DecoNetwork have allowed us to build and develop the website we have always envisioned but were unable to achieve with our previous software platforms."

Zhen, Tee Junction



"Our screen-printing business runs on Deconetwork. Everything we do: quotes, art approvals, orders, scheduling, customer correspondence and shipping confirmations is all done through the best part of Deconetwork - Business Hub."

Tom Vann, Tommy's T-Shirt Factory



"I just wanted to share how pleased we have been with DecoNetwork. We redesigned the Teeki Hut website last January and we are thrilled to say that our online sales doubled in one year! We couldn't be happier. Now we are hoping to double that number again this year!"

Denise, Teeki Hut

Want to learn more about how DecoNetwork can revolutionize your business? Visit deconetwork.com or call Client Services

United States: Tel 855-DECONET (855 332 6638 within USA) / International call: +1 562-320-8771

Australia: Tel +61 2 9099 8077 | **United Kingdom:** Tel +44 1382 755 002