

## Simplify Your Pricing

How to use flat rate pricing to simplify how you explain price to customers.

By Brian Greul

Sometimes it feels like embroidery pricing is slippery; you know, the customer asks “how much,” and we ask at least five questions before we can name a price. Can you imagine going to a restaurant and having to order this way? You sit down at the table, the waitress greets you, and you tell her you’re really hungry. Then, you ask how much a burger is. In turn, she asks how hungry you are, how big you want your burger, what you want on it and if you’d eaten there recently. Most of us would probably walk out. That’s exactly what the average customer feels when buying embroidery. Our world of needles, threads and patterns is foreign to end-users and buyers. They often just see the end product, the embroidered logo or screen printed design, for example.

To deal with this disparity, you may want to consider flat rate pricing for most of your jobs. I’ll cover the components of a basic model, what your risks are and when to go back to your traditional model, and how to establish rules to safeguard your profitability – and sanity. The main idea is that you can make more money by closing sales and actually running jobs; however, as with anything, the biggest risk is that you’ll lose money.

### Getting started

Typically, in my embroidery shop, a customer brings a job to us and we price

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*Editor’s Note:* In this column, the author explains the benefits of a flat rate pricing model. In March, he’ll build on the flat rate pricing model by explaining how discounting based on quantity can help you increase order size.

it based on stitch count. In January’s Just the Numbers column, I wrote that stitch count is just a way to sell machine time. The problem is that to determine stitch count we either have to guess, or digitize and guess again. Both ways stink. It wastes a lot of time and makes the customer feel like we’re giving him the runaround.

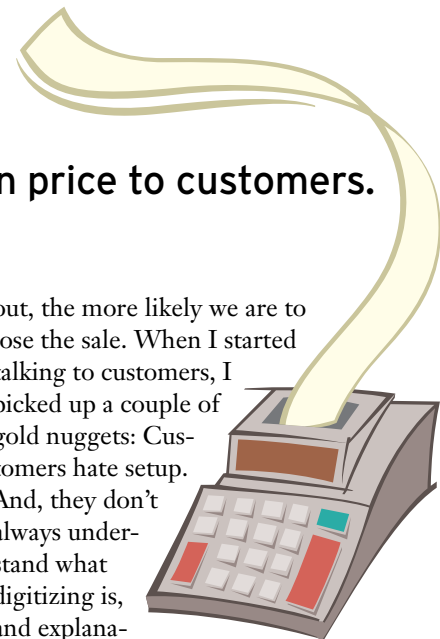
By using a flat rate pricing model, you come across as a professional company that sells a predictable service - rather than a backroom deal that encourages haggling. Instead, you’re able to focus on closing the order.

In my shop, I used to pull my hair out. My sales staff spent hours running between the customer and the digitizer negotiating the charge for digitizing. What started as a “quick” 30-shirt job suddenly turned into a week’s worth of negotiations to determine the digitizing rate for that particular job. A few things stood out: I felt this was a lousy way to price for most jobs, since most jobs require about the same or less stitches. And, the longer we drag the sales process

out, the more likely we are to lose the sale. When I started talking to customers, I picked up a couple of gold nuggets: Customers hate setup. And, they don’t always understand what digitizing is, and explanations make it sound like setup. I usually re-did outside setups to make sure they sewed out right. And finally, I kept losing jobs to an embroidery shop that used flat rate pricing.

After some careful thinking, I decided to jump on the flat rate pricing wagon. It’s worked really well for us, so here’s what you need to know to implement it for your business. First and foremost, know your embroidery costs. If you don’t, you’ll break even, or worse, lose money. Then, look at your jobs. I find that most jobs are pocket-area logos. Sleeves and pockets are about the same working size. A hat coincidentally has about the same size embroidery area. Some exceptions are jacket backs, bandannas and 270 degree hat embroidery. The basic concept to this pricing model is that you offer a flat rate that includes setup, and you give a discount to the customer as she increases her order size, or number of pieces ordered.

Like everything else I advocate, it relies on a formula for guidance. To establish your flat rate pricing structure, you need to know three numbers: your average stitch count per order; cost per thousand stitches; and what you charge for your digitizing services.



To determine your average stitch count, first review some typical jobs in your shop. I chose 8,000 as my standard number of average stitches per order after reviewing more than 100 jobs we had run. Most jobs averaged 5,600 to 6,500 stitches. This is one of the reasons that flat rate pricing provides more profit on most jobs. Most of the time we don't do 8,000 stitches and once in a while we do 9,500 stitches.

As a side note, my goal was to get away from stitch count entirely, so I tell clients that the flat rate price includes a 3.5-inch-by-3.5-inch area. I've only felt burned once when we did a 14,000-stitch logo on 300 shirts for a military unit. I tell clients that for larger jobs we need to calculate the pricing, but 90% of our jobs fall inside this 3.5-inch-by-3.5-inch area.

I charge \$1.25 per 1,000 stitches. To learn more about how to calculate your cost per thousand stitches, refer to the January By the Numbers column. I also use \$40 as my flat digitizing rate per order; that's a figure that's worked well for us and is competitive with rates that local digitizers charge.

The following chart shows you how to figure out flat-rate pricing for an order of six shirts.

\$1.25 = Your price per 1,000 stitches\*  
x 8 = Eight units of 1,000 stitches

**\$10 = Cost for stitching on one shirt**  
x 6 = Number of shirts ordered

**\$60 = Cost of stitching for all six shirts**  
+ \$ 40 = Flat digitizing rate for the entire order

**\$100 = Price your customer pays for embroidering six shirts. Per shirt, this is a \$16.67 cost.**

\*For more on how to figure out your cost per 1,000 stitches, see the January "Just the Numbers" column.

One example that's been particularly handy has been comparing my embroidery to ordering a pizza. I explain to customers that you can't price the crust separately from the ingredients, and likewise we don't mess around with the individual cost of the parts of the embroidery service. In other words, I sell embroidery services, and part of that service includes digitizing, so why sell it separately?

#### Set the rules

It's very important to set rules on your flat rate pricing. This will prevent you from taking a huge price cut while maximizing the benefit of a simple price structure. First, be up front and tell customers what your flat rate size is (mine is a 3.5-inch-by-3.5-inch area). We use a 3.5-inch-by-3.5-inch area because it's the same size as a pocket area screen print. Our experience is that anything larger is overpowering anyway. Let them know that you can do larger work, but it needs to be specially priced. Usually, a good explanation for this is that each job requires more or less work, and the price varies by the amount of work. I avoid going into the technical aspects of how we stitch; the customer rarely cares.

Second, be up front on where your flat rate applies. My flat rate only applies to sleeves, hat fronts and shirt pocket areas. It doesn't cover difficult placement such as shirt collars, leather bags or any other project that's an exercise in self-punishment. The idea is to simplify the pricing for most customers. I also up charge for "special" (hard to use) threads such as metallics.

The result? I spend a lot less time defending pricing and a lot more time sewing now. One example that's been particularly handy has been comparing my embroidery to ordering a pizza. I explain to customers that you can't price

the crust separately from the ingredients, and likewise we don't mess around with the individual cost of the parts of the embroidery service. In other words, I sell embroidery services, and part of that service includes digitizing, so why sell it separately?

To succeed, we must recognize that customers want a simple, straightforward model – one that doesn't waste a lot of art or sales time. A flat rate model can do this while building trust and integrity with your customer. Instead of feeling like a backroom dealer that encourages haggling, you come across as a professional company that sells a predictable service. It lets you focus on closing the order.

I can't tell you how many times a customer asked the price to embroider 36 shirts. In the past we'd say: "I need to analyze your logo (or guess) and get back to you in a couple days with what I think we should charge (or can get away with)." Now, I tell the customer: "Sure, we can do that in about seven days and the price is X."

In next month's column, I'll build on the flat pricing model by explaining how discounting based on quantity can help you increase order size. ●

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