

Business Longevity in the Decorated Apparel Industry

What does it take to survive and grow in the decorated apparel industry? A comparison of attributes of companies at different stages of the business lifecycle reveals several key ingredients to long-term success.

New entrants and established firms in the decorated apparel industry should have an understanding of the factors that drive long-term success.

Launching or expanding a business requires a major commitment of time, effort and resources, no matter what industry you're in. But given that the dynamics of every industry are different, it is crucial that both new entrants and established firms in the decorated apparel industry have realistic goals and expectations, as well as an understanding of the unique factors that drive long-term success.

Whether a company lasts a year or a lifetime, the closing of a business isn't necessarily a sign of failure. In fact, according to a study of government data, businesses close for a variety of reasons other than bankruptcy: "It appears that many owners may have executed a planned exit strategy, closed a business without excess debt, sold a viable business or retired from the work force," states Brian Headd.¹

Nonetheless, longevity — along with growth in revenue, profitability and employment — is a common measure of business success. The lifespan of a business also is a measure of the vitality of an industry. High turnover, for example, may indicate a high degree of risk.

According to a government study, 44% of startups were still in business after four years. In contrast, 57% of the businesses that participated in a microenterprise development program still existed after five years.

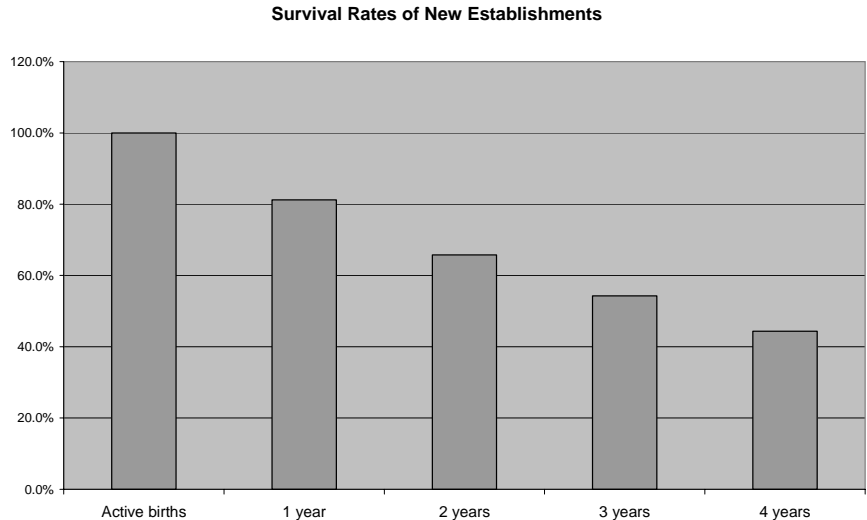


Figure 1. A government study of the survival rates of new establishments across a variety of industries from 1998 through 2002 shows that 66% of firms were still in existence after two years, and 44% after four years.

Given the government's extensive research on survival and longevity, anyone starting a business today should have a clear idea of the challenges of lasting beyond the startup stage, generally considered the first two or three years of a company's existence (*Figure 1*).²

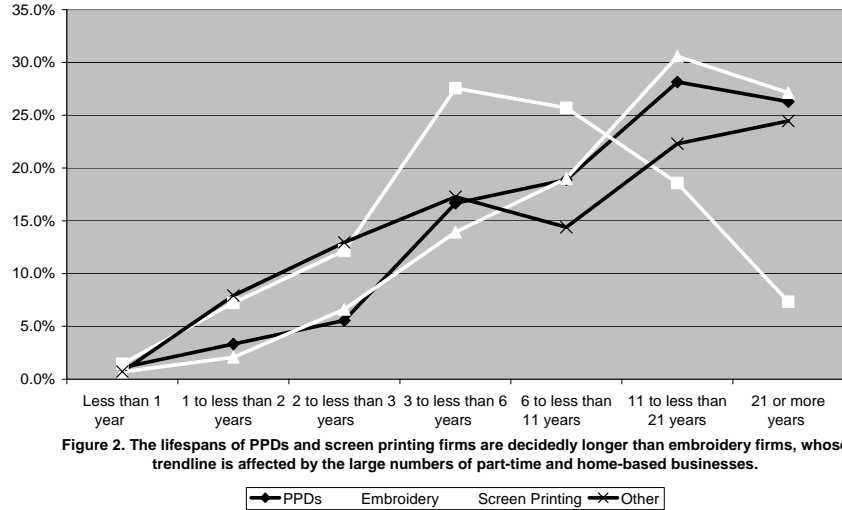
In contrast to the government's studies on small business survival, a study of microentrepreneurs involved in the Self-Employment Learning Project found that microbusinesses — defined as a business with fewer than five employees and small enough to benefit from loans of less than \$35,000 — had survival rates of 78% after two years and 57% at the end of five years.³

It is important to note, however, that the owners of these businesses participated in microenterprise development programs, in which they received business skills training and access to the capital needed to sustain their businesses.

According to the 2006 IMPRESSIONS Decorated Apparel Universe Study, more than three-quarters of the decorated apparel industry fit the employer part of the microbusiness description. Though the study didn't capture capital investment data, given that nearly 25% of the companies polled reported annual gross revenue of less than \$25,000, it can be safely assumed that their capital outlays lie well within the bounds of the definition.

While the decorated apparel industry is not unlike other industries, it does have its differences, and these

Longevity of Decorated Apparel Business Segments



differences do affect the longevity of the various segments (Figure 2).

Longevity in the decorated apparel industry varies by segment, with embroidery firms struggling to stay afloat after their first three to six years in business.

Survival Factors

For businesses in general, several factors appear to contribute to the likelihood of survival. According to Brian Headd, these include being an employer firm, having starting capital greater than \$50,000, having a college degree and starting a business for personal reasons. Previously owning another business, having multiple owners and being home-based at startup also appear to increase survivability, he adds.

Some, but not all, of these factors can be measured against the data collected in the 2006 *IMPRESSIONS* Decorated Apparel Universe study. These include whether the company is an employer or non-employer and whether it is home-based or based in another location. In addition, the *IMPRESSIONS* study provides insight into other characteristics of long-term survival, including whether a business is part-time or full-time, the extent to which it is diversified, and so on.

Many of these characteristics correspond to those associated with the different stages of the typical business lifecycle. Though several different lifecycle models exist, the most commonly used includes four stages: startup, growth, maturity and decline (See Appendix A). Because the time it takes to reach or pass through each stage varies by business, it is essential that each decorated apparel business owner properly identify the lifecycle stage

of his business so that he can make appropriate plans and establish realistic goals.

Additionally, wouldn't it be helpful for a startup owner or owner of a company entering its growth stage to view these long-lived companies as a window into the future and ask whether any of the characteristics associated with them might figure into their present business plans?

For example, long-lived companies almost always have well defined systems and processes in place, yet decorated apparel startups may lack business or marketing plans, basic accounting or business management tools, or sales and production tracking methods. As the president of a major apparel decoration equipment company told us, "Many decorated apparel business owners run their business out of their check books."

In a similar vein, another industry executive recently remarked that embroidery equipment companies might serve their customers better by packaging their machines with business software than with digitizing software.

To be able to make appropriate plans and establish realistic goals, a decorated apparel business owner should try to identify the lifecycle stage of his business.

Part-time & Home-based Impact

The decorated apparel industry, particularly the embroidery segment, features a high percentage of part-time and home-based businesses. Judging by a poll of attendees at the StartUp Decorator Workshops held during the 2006 Imprinted Sportswear Shows, that's also the way most new apparel decorators start out: 47% of the newcomers said they planned to operate their business part-time, and 61% said they planned to start their business at home.

The low cost of entry to equip an entire business (less than \$35,000), minimal space requirements and relatively short learning curve make apparel decoration especially attractive to people who may only want to operate part-time.⁴ These include work-at-home mothers, retirees, moonlighters and others. Some may have a short-term horizon, with no plans to establish a long-term, full-time business; others may actually be laying the foundation for a full-time business and planning for long-term growth.

Though the *IMPRESSIONS* study doesn't reveal what percentage of part-timers become full-timers, what it does show is that the percentage of part-timers starts to decrease dramatically after about three years, dropping from 54% of the industry to 38% during the next three years and continuing to dwindle (*Figure 3*). In addition, by comparing figures 2 and 4, one can see that the embroidery sector enjoys a much longer lifespan once the

Variations in Business Types of Decorated Apparel Firms by Lifespan

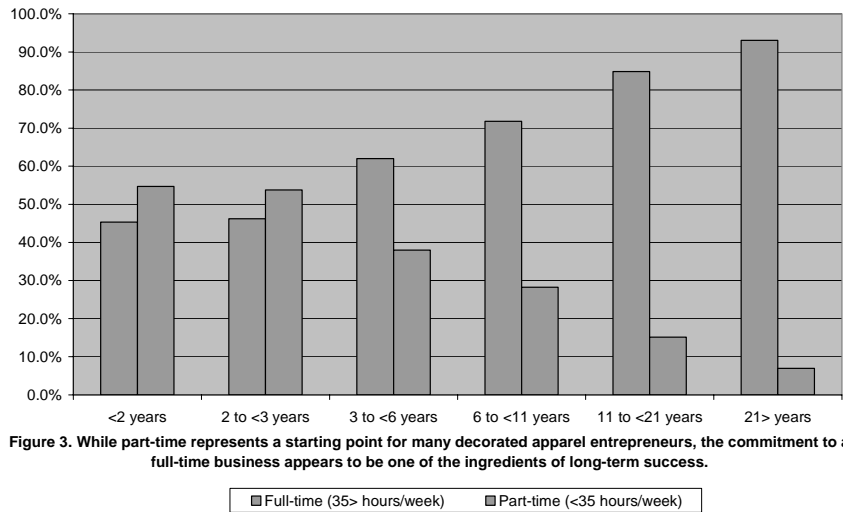


Figure 3. While part-time represents a starting point for many decorated apparel entrepreneurs, the commitment to a full-time business appears to be one of the ingredients of long-term success.

■ Full-time (35+ hours/week) ■ Part-time (<35 hours/week)

Longevity of Full-time Decorated Apparel Firms

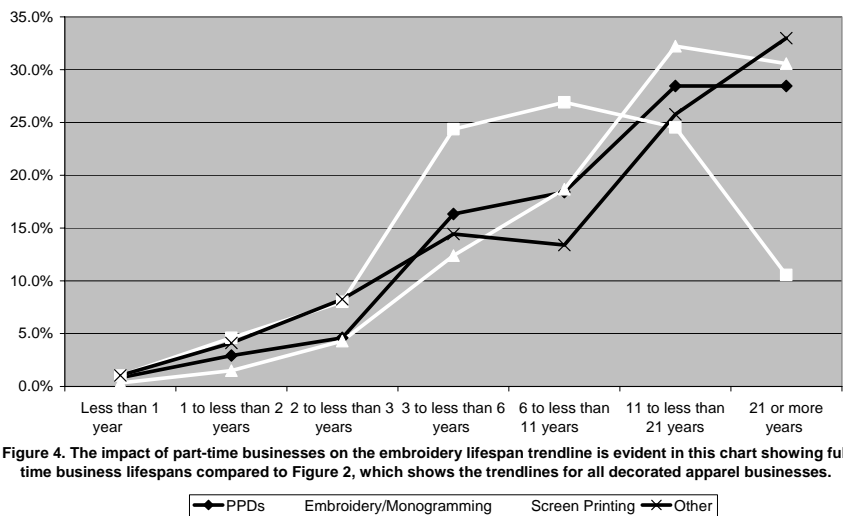


Figure 4. The impact of part-time businesses on the embroidery lifespan trendline is evident in this chart showing full-time business lifespans compared to Figure 2, which shows the trendlines for all decorated apparel businesses.

◆ PPDs ■ Embroidery/Monogramming ▲ Screen Printing ✕ Other

While many decorated apparel companies start out as part-time businesses, those with the longest life-spans either started out as a full-time business or became one.

influence of part-time businesses is removed (Figure 4). The message is that if you want to remain a player in the industry, you should either start out as a full-time business or plan to become one in the near future.

Despite the government data indicating that starting out at home may increase business survivability, this does not appear to be the case in the decorated apparel industry, as most long-lived decorated apparel firms are found in retail or industrial locations (Figure 5). While many startups in the industry begin at home, especially in the embroidery segment, the data indicates that a large percentage of these companies either go out of business or move into a

Though government data associates home business ownership with survivability, most long-lived firms in the decorated apparel industry are either retail- or industrial-based.

Variations in Locations of Decorated Apparel Firms by Lifespan

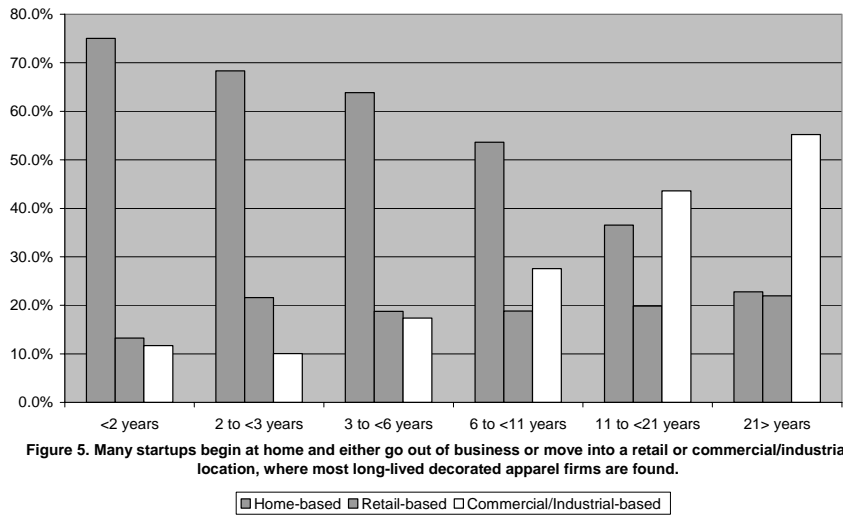


Figure 5. Many startups begin at home and either go out of business or move into a retail or commercial/industrial location, where most long-lived decorated apparel firms are found.

Variations in Employment of Decorated Apparel Firms by Lifespan

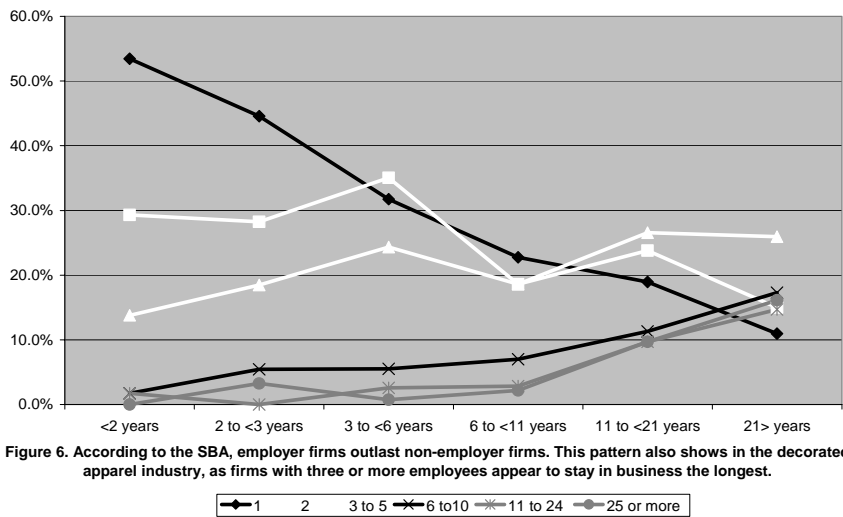


Figure 6. According to the SBA, employer firms outlast non-employer firms. This pattern also shows in the decorated apparel industry, as firms with three or more employees appear to stay in business the longest.

As in other industries, employer firms in the decorated apparel industry outlast non-employer firms.

retail or commercial location.

By comparison, employer firms in the decorated apparel industry, as the government data indicates for all businesses, do outlast non-employer firms (Figure 6). The peak percentage of one-person shops occurs during the 6-to-11-year period and two-person shops during the 11-to-21-year period, with those shops having three or more employees still growing as a percentage of those in business after 21 years. (Note: The 2006 IMPRESSIONS Decorated Apparel Universe Study did not include part-

Variations in Margins for Decorated Apparel Firms by Lifespan

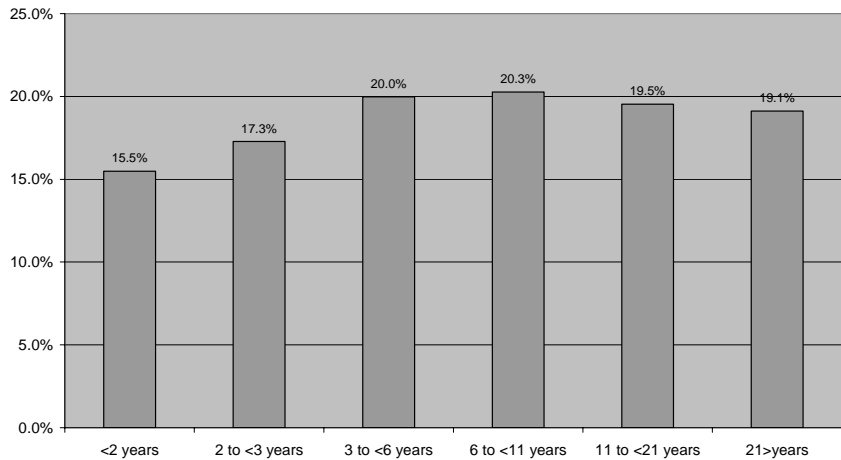


Figure 7. Average margins are low during the startup stages, increasing during the growth years and then coming under pressure during the maturation years of the business lifecycle.

Variations in Business Concerns of Decorated Apparel Firms by Lifespan

Changing concerns not only indicate business challenges but also follow the different stages of the business lifecycle.

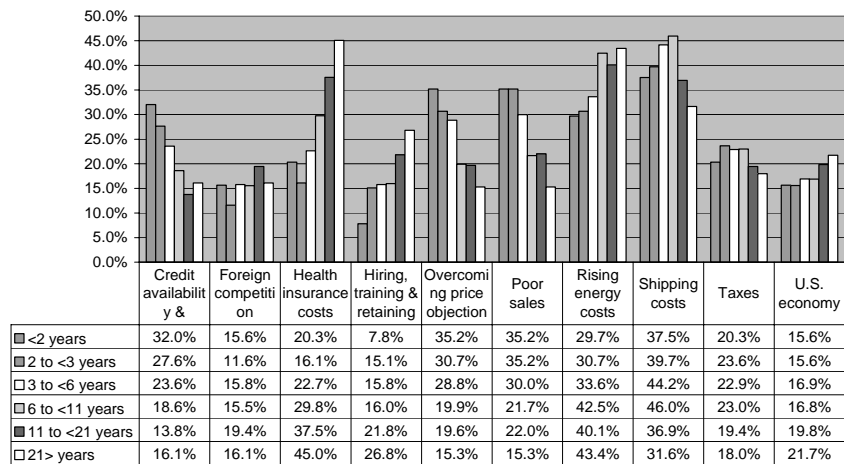


Figure 8. While startups are more concerned about poor sales, overcoming price objections and credit availability, older firms are more concerned about healthcare costs and employee-related issues.

time employees in its employment head counts.)

Variations in annual gross revenue and profitability in the decorated apparel industry follow the typical business lifecycle pattern, with margins small during the startup years, increasing during the growth years and stabilizing during the mature years (Figure 7).

The business lifecycle also reflects the cost of doing business and other concerns found in the decorated apparel industry. For example, credit availability and interest payments are concerns among 59% of firms in business less than three years, as their equipment payments and other overheads may exceed the revenue they can generate during their startup phase (Figure 8). It

should come as no surprise then that 70% of these same firms indicate poor sales as a concern.

In contrast, long-lived companies, which also have more employees, have to deal with the burden of healthcare costs. They're also naturally more concerned about hiring, training and retaining employees.

Competitive Strategies

Though competitive strategies in the decorated apparel industry follow the business lifecycle as well, they also provide a glimpse into the future for startups and companies entering the latter phases of their growth cycle and wondering what the next step is. While younger companies are focused on finding new customers and improving their marketing effort, older companies are focused on increasing business with current customers, cutting operating costs and increasing their level of customer service (*Figure 9*).

Identifying the competitive strategies of successful decorated apparel firms may help younger firms prepare their own long-term strategies.

Variations in Competitive Strategies of Decorated Apparel Firms by Lifespan

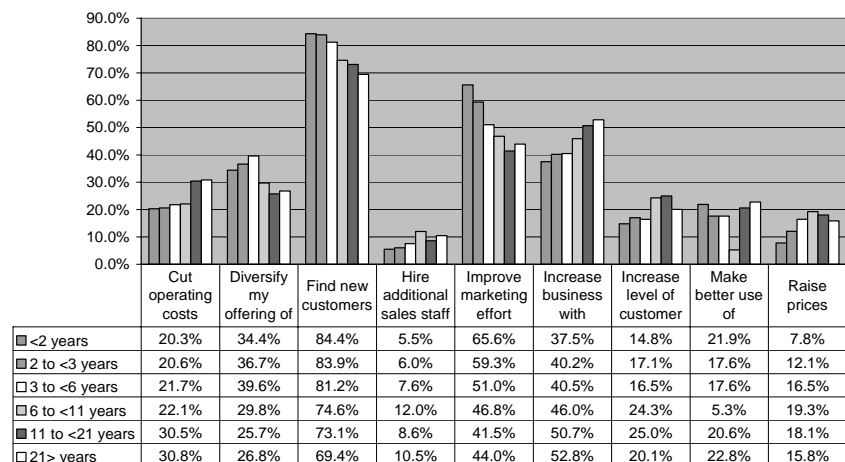


Figure 9. Younger companies are focused on finding customers and improving their marketing effort, older companies on increasing business with current customers, cutting costs and improving customer service.

This finding begs the question: What if a business defined the level of customer service it desired to provide from the get-go as part of its mission statement and promotional materials (i.e., Our service is 100% guaranteed or your money back!)? Or what if it had in place a customer relationship management system so that it could send out regular reminders to its growing customer base to build loyalty and business? This might include special discount offers for repeat customers, announcements about seasonal items or new products and services, or simply re-order queries.

Variations in Marketing Methods of Decorated Apparel Firms by Lifespan

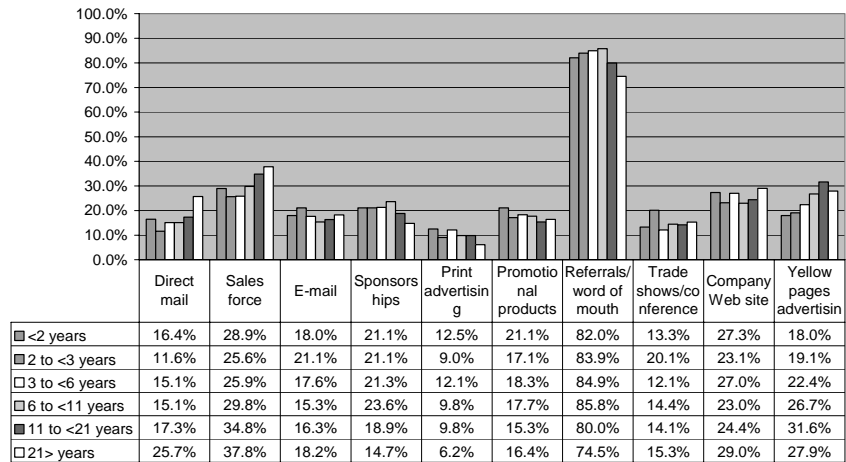


Figure 10. While younger companies rely more on referrals, sponsorships and promotional products, older companies rely more on a direct sales force, yellow pages advertising and direct mail.

A marketing plan should identify advertising methods in terms of their effectiveness as well as return on investment.

Variations in Markets of Decorated Apparel Firms by Lifespan

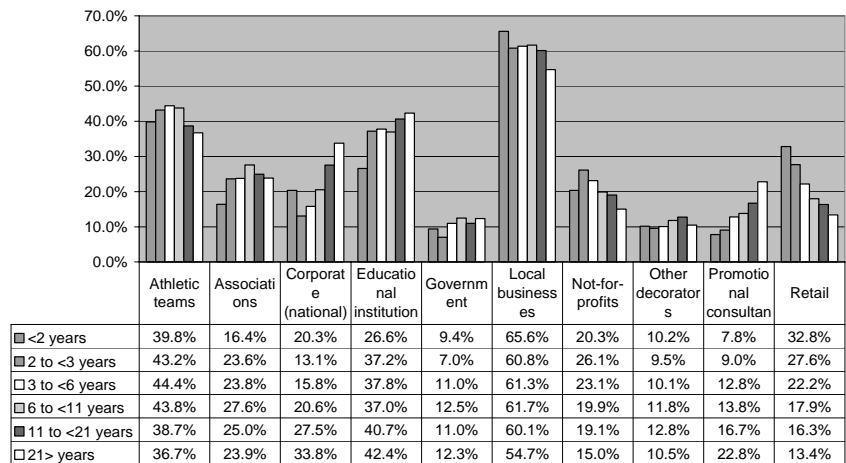


Figure 11. Younger companies are more focused on such markets as local businesses, athletic teams and retail, older companies on educational institutions, national corporate accounts and PPDs.

Additionally, perhaps it would pay to invest in some of the marketing methods older companies find effective, including yellow pages advertising, direct mail or direct sales (Figure 10). While the cost of implementing certain marketing methods may be prohibitive for a startup, each initiative needs to be evaluated in terms of its return on investment and where it fits into the company's business plan.

Likewise, startup companies may be overlooking certain markets or attempting to enter already crowded markets instead of carving out their own niche (Figure 11).

Finally, diversification itself, as well as the extent of diversification, is clearly more prevalent among older firms than younger ones (Figure 12). The question for any company is to determine when to diversify its apparel decoration services, what processes or services to add,

Diversification represents one of the most obvious factors in long-term growth, adding new profit centers and driving revenue in the firm's primary business.

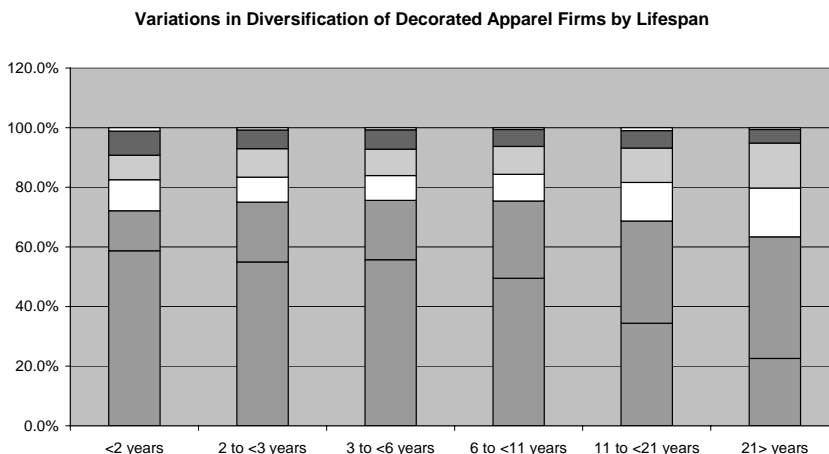


Figure 12. Diversification increases over time in the decorated apparel industry, with older firms deriving larger percentages of revenue from a variety of sources than younger firms.

Embroidery	Screen printing	Promotional products
Other (incl. outsourced services)	Heat printing	Inkjet garment printing

what will it cost and what return can be expected for the investment. (For more information, the White Paper “Diversification in the Decorated Apparel Industry” is available for download at impressionsmag.com).

Conclusion

As desirable as business longevity may be, there are no guarantees in any industry for long-term success. The decorated apparel industry is no exception. Even the perennial optimist, who considers the glass half full rather than half empty, will find starting up more of a struggle than expected if he is not adequately prepared.

Unfortunately, many newcomers equate preparation with learning how to operate the equipment. Then, once they get going, they spend their time doing only that. While that’s part of the price the owner of a hands-on business like apparel decoration must pay, it is critical for these same startups to understand the difference between working “in” their business rather than “on” their business, otherwise they will quickly find they have very little or nothing to decorate.

Once they have become established, these same companies will experience the angst associated with growth and begin to ask how they can take their business

to the next level. At this point, their owners must devote their time and energy to working “on” the business, hiring others to do the day-to-day work while they spend their time revising business and marketing plans and developing a strategic vision for growth and expansion.

Were business owners at any of these stages to study the factors behind the success of long-lived decorated apparel companies, they might find that these companies share the following characteristics:

During a decorated apparel company’s growth stage, it is imperative for the owner to be working “on” his business rather “in” his business.

- They run a tight ship, controlling and reducing their operating costs.
- They use a variety of marketing methods to keep their name top of mind and to attract new business.
- They provide products and serves to numerous markets rather than relying exclusively on a few.
- They offer a variety of decoration processes, providing their customers the convenience of a one-stop shop.
- They continually seek out new customers while striving to build repeat business among their existing customers.

*

The data in this white paper is based on information from the 2006 *IMPRESSIONS* Decorated Apparel Universe Study, conducted from May 10 to July 3, 2006. This survey had a confidence factor of 99% and margin of error of +/-3%.

Footnotes:

¹“Redefining Business Success: Distinguishing between Closure and Failure,” *Small Business Economics* 21: 51-61, 2003.

²Amy E. Knaup, “Survival and Longevity in the Business Employment Dynamics Data,” *Monthly Labor Review*, May 2005.

³“SELP Longitudinal Survey of Microentrepreneurs,” The Aspen Institute, April 1998)

⁴“The Digital Shop,” *EMB*, April 2006 (available at embmag.com)

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Appendix A

Stages of Business Development

Stage	Attributes	Description
Startup	Innovation High risk Low profit margins	Requires large investment of time, effort and money Need to create a stable customer base, buy inventory and engage in other business activities Lack of financial reserves is single greatest reason for failure during startup stage
Growth	Increasing sales Increasing profit margins	Can function using their own limited resources Consumer demand is established and increases Additional help needed in production, operations or sales to continue growth Not creating customer loyalty among existing customers is greatest reason for failure during growth stage
Maturity	Sales require less effort Business produces reliable stream of cash Little production innovation occurs Profit margins stabilize	Name recognition is gained; contacts are well established Borrowing becomes easier Intensive marketing may be needed to increase or maintain market position Growth at this stage depends on diversification or continuing to generate new sources of income within the company's chosen field
Decline	No product innovation Profits are thin	Declining sales Shrinking market Costs are cut to preserve profit Strategic planning is required to return to the maturity stage

Sources: The American Institute of Certified Public Accountants; Jeffrey Moses, "The Four Potential Stages of Business Growth," National Federation of Independent Business, 2002.