

# Executive Summary

## 2007 Impressions Decorated Apparel Universe Study

By Richard Lebovitz

*As the 2007 Impressions Decorated Apparel Universe Study shows, apparel decorators are climbing the ladder of success by applying a variety of business strategies and providing their customers with a variety of decoration options.*

Despite a plethora of natural disasters, rising energy costs and mixed economic news during the past few years, the decorated apparel industry has enjoyed steady growth — to the tune of \$43.9 billion in 2006, up 5% from 2005, according to the 2007 *Impressions Decorated Apparel Universe Study* conducted at mid-year.

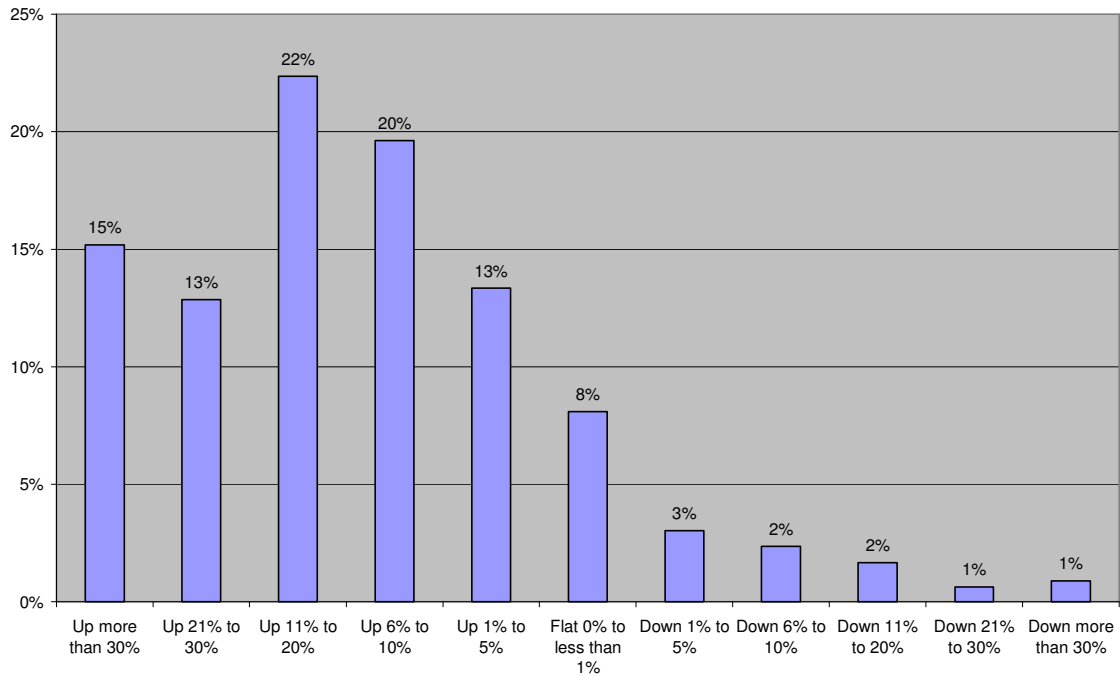
That's on top of 6% growth from 2004 to 2005, the period preceding the year the 2007 *Impressions Decorated Apparel Universe Study* covers.

Decorated Apparel Industry Growth, 2004-2006				
Part-time				
	Revenue	% Change	Businesses	% Change
2004	\$ 409		13.0	
2005	\$ 423	3%	13.4	3%
2006	\$ 457	8%	12.4	-8%
Full-time				
	Revenue	% Change	Businesses	% Change
2004	\$ 38,792		42.0	
2005	\$ 41,185	6%	41.9	0%
2006	\$ 43,395	5%	43.3	3%
Total				
	Revenue	% Change	Businesses	% Change
2004	\$ 39,201		55.0	
2005	\$ 41,608	6%	55.3	1%
2006	\$ 43,853	5%	55.7	1%
Revenue = thousands \$US; Businesses = thousands				

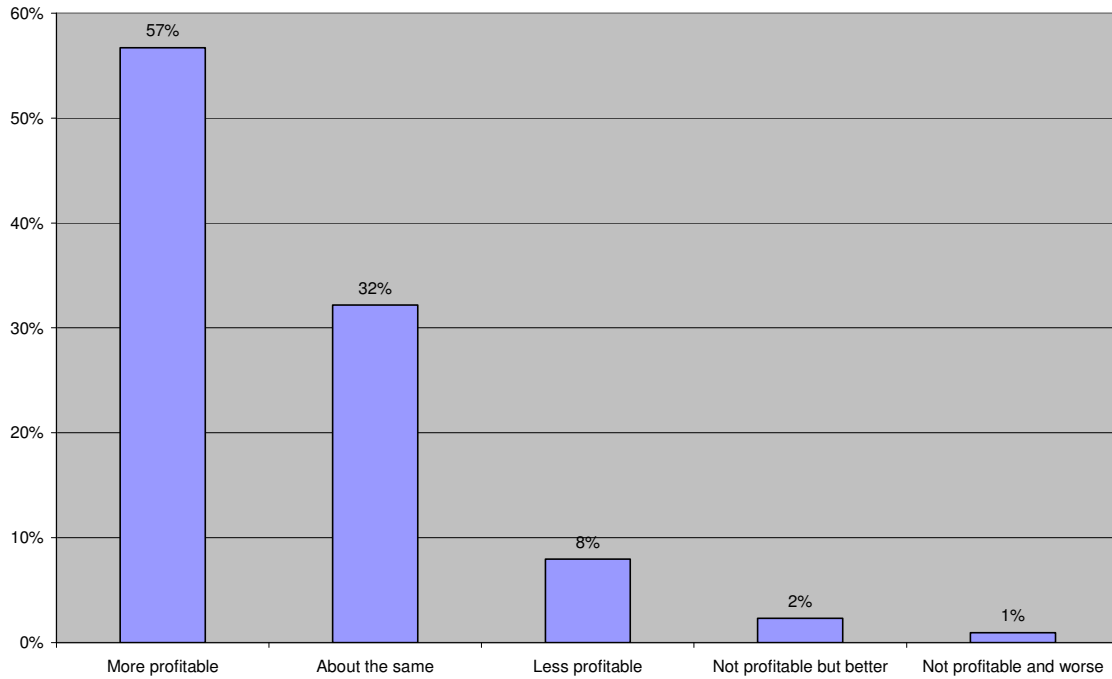
Additionally, 83% of the apparel decorators and promotional products distributors polled indicated that their revenues were up in 2006, while only 17% reported that business was down or flat. Most reported no erosion in their profitability either, with 57% reporting that they were more profitable than the year before and 32% indicating their profitability remained unchanged.

Overall, the prognosis for 2007 among the apparel decorators we spoke to recently was for a repeat performance of 2006, though there seems to be universal agreement that high energy costs are having a discernable impact on their businesses.

Which of the following best describes your company's revenue growth in 2006 over 2005?

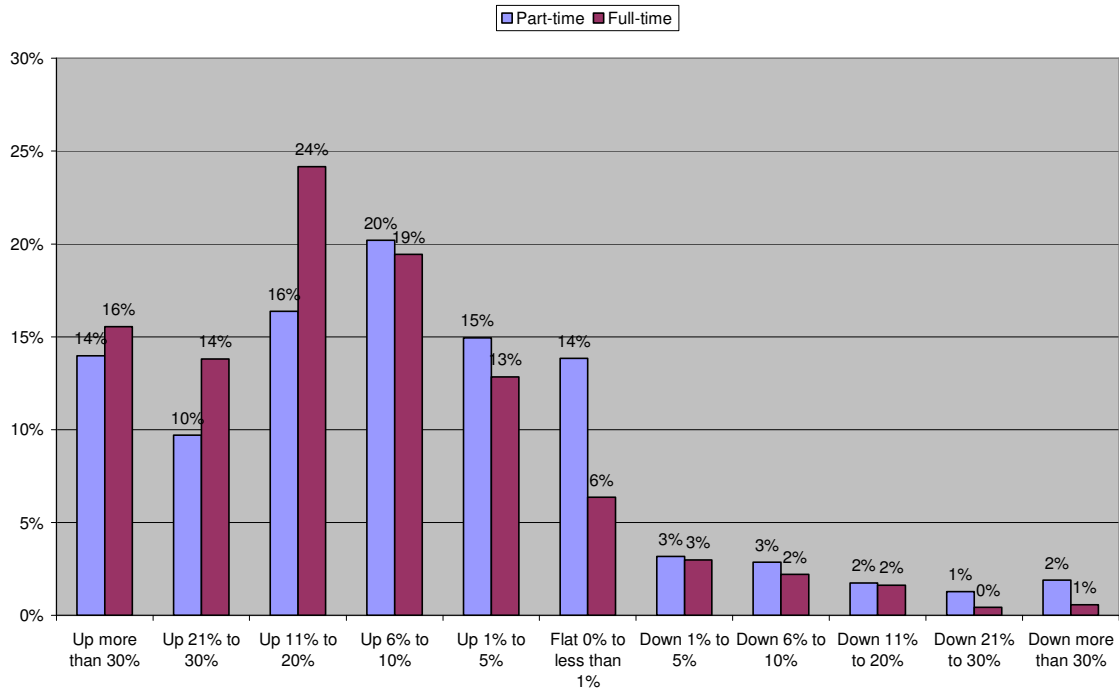


**How did your company's profitability in 2006 compare with your profitability in 2005?**



"The cost of making a sales call has gone up, so getting face to face contact with a customer needs to be more planned, and it's a more expensive situation," says Jeff

**Which of the following best describes your company's revenue growth in 2006 over 2005?**



Liscum, president, Southeastern Embroidery Works Inc., an embroidery and screen

printing company in Marietta, Ga. "If you take the average person in a sales situation, they drive 20,000 miles a year. How much does it cost to drive 20,000 miles a year in 2007 as opposed to 2005?"

Still, it appears that the decorated apparel industry is resilient enough to withstand whatever Mother Nature or the economy dishes out. Mark Venit, president, Apparel Graphics Institute Ltd., Ocean Pines, Md., whose 25 years of consulting provides a long view on the industry, ventures that the decorated apparel industry is recession proof.

"I think the industry's always good," he says. "In a recession, or any kind of economic downturn, our industry as an aggregate tends to be quite resilient, because most of the products that we sell are purchased because we've established the need and the legitimacy of the need whether it is for pure promotion or giveaway or a company uniform or something people get because they register to run in a race.

"The core strength of the industry is that the usage of our products is mainstream. Athletic teams are still going to need new shirts and shorts next year, and they've still got to be numbered, so that overall, we are what I call recession-resistant."

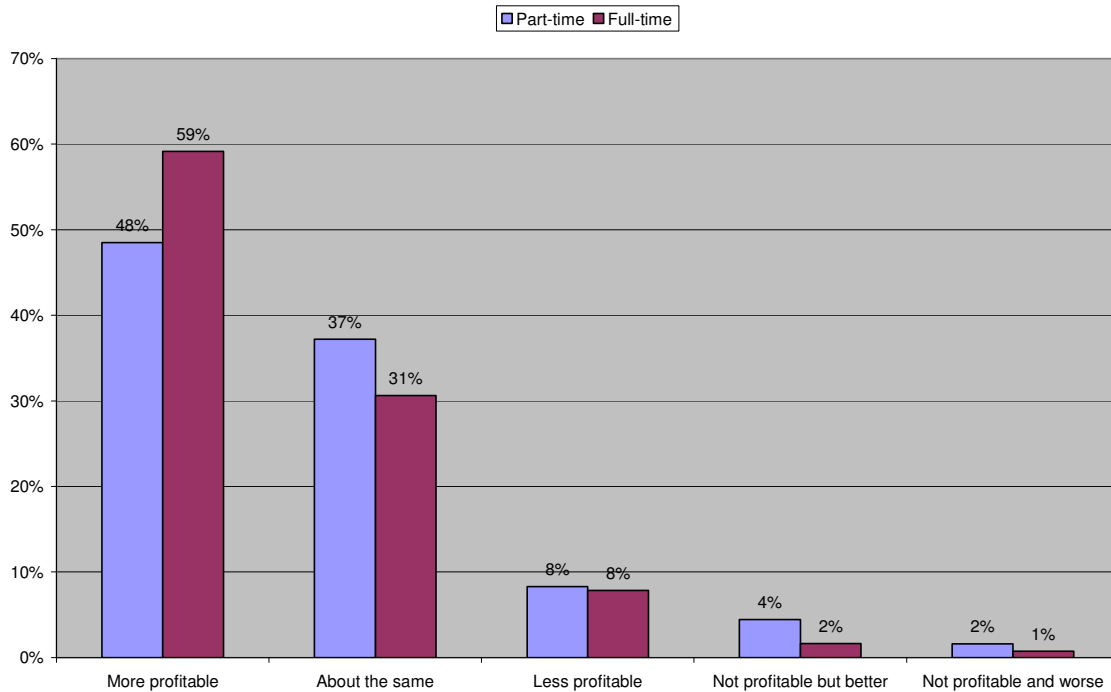
While that may be so, it doesn't mean that apparel decorators can afford to take a laissez-faire attitude toward their business, and it certainly doesn't mean they took that position in 2006. Those polled said that finding new customers, increasing business with current customers and adding new products topped the list of strategies that contributed to their companies' growth last year.

Furthermore, while those shop owners we talked to recently reported satisfactory year-to-year gains in gross revenue, the picture we got was that of business people working hard for their money.

When asked what factors contributed to the 10% to 12% growth of his business in 2006, David Schlier, president, Rockland Embroidery, an embroidery, screen printing and garment manufacturing company in Topton, Pa., answered, "Aggressiveness and trade shows, trade shows, trade shows. Ever since security has been the way it has been since 9/11, you just don't walk into [places] like New York City and visit people anymore and cold call. You need to get their time, and it's hard to get appointments. Whereas we just love the trade shows because they're coming to you with a mission — they come to talk to you. And you have their undivided attention." Schlier adds that 80% of his company's business is with promotional products distributors.

Despite the good news, not all segments of the industry enjoyed the same degree of success. For example, there is a clear demarcation in the decorated apparel industry between the business dynamics of part-time shops, which account for about one-fourth the industry, and full-time operations.

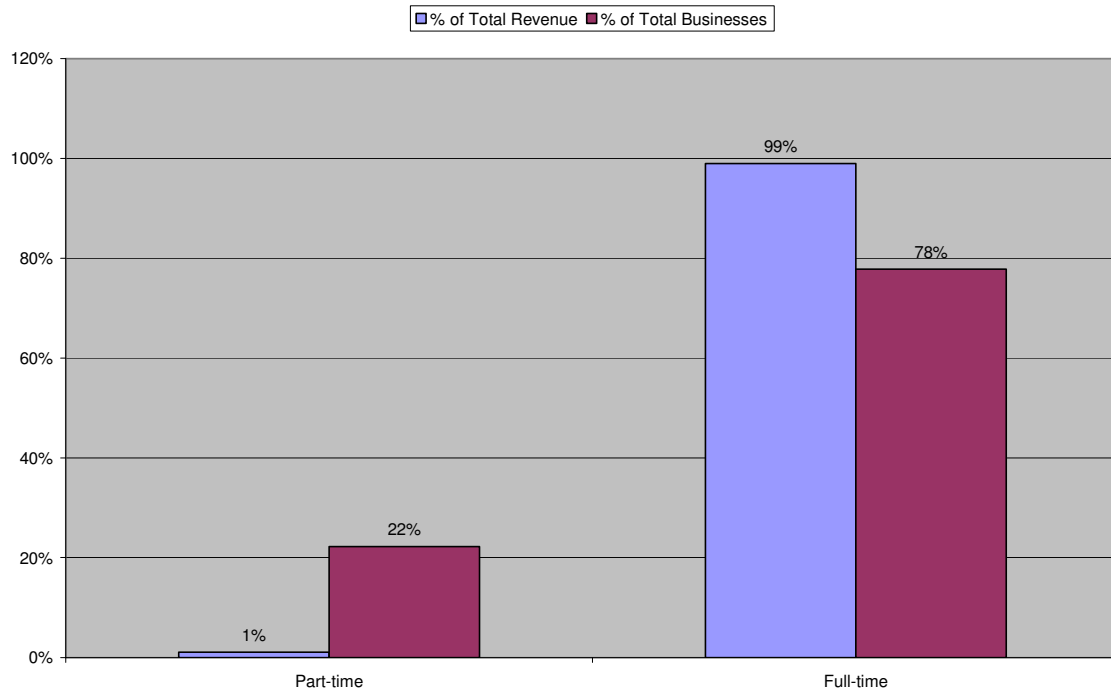
### How did your company's profitability in 2006 compare with your profitability in 2005?



Only 75% of part-timers indicated their business was up in 2006 vs. 86% of full-timers. Total sales for the segments were up 8% and 5.4%, respectively, as compared to 3.4% and 6.2% during the 2004-2005 period. Likewise, profitability varied between the groups, with only 48% of part-timers indicating they were more profitable in 2006 than the year before, compared to 59% of full-timers.

In fact, because of the bias their sheer numbers inject into our survey results compared to their contribution to total industry revenue — they account for about 25% of the businesses but only 1% to 2% of the revenue — we are now treating this group as a separate entity to ensure a more credible representation of the industry data. (Note: Unless otherwise specified, the commentary in this section references only full-time businesses.)

Comparison of Percentage of Part-time and Full-time Businesses vs. Revenues, 2006



The part-time segment represents a variety of constituents with varying business goals, including people who aim to supplement their full-time or retirement income with no long-term plan in mind to those who would eventually like to run a full-time decorated apparel business but don't have the know-how or financial wherewithal to take the one giant step needed to get started.

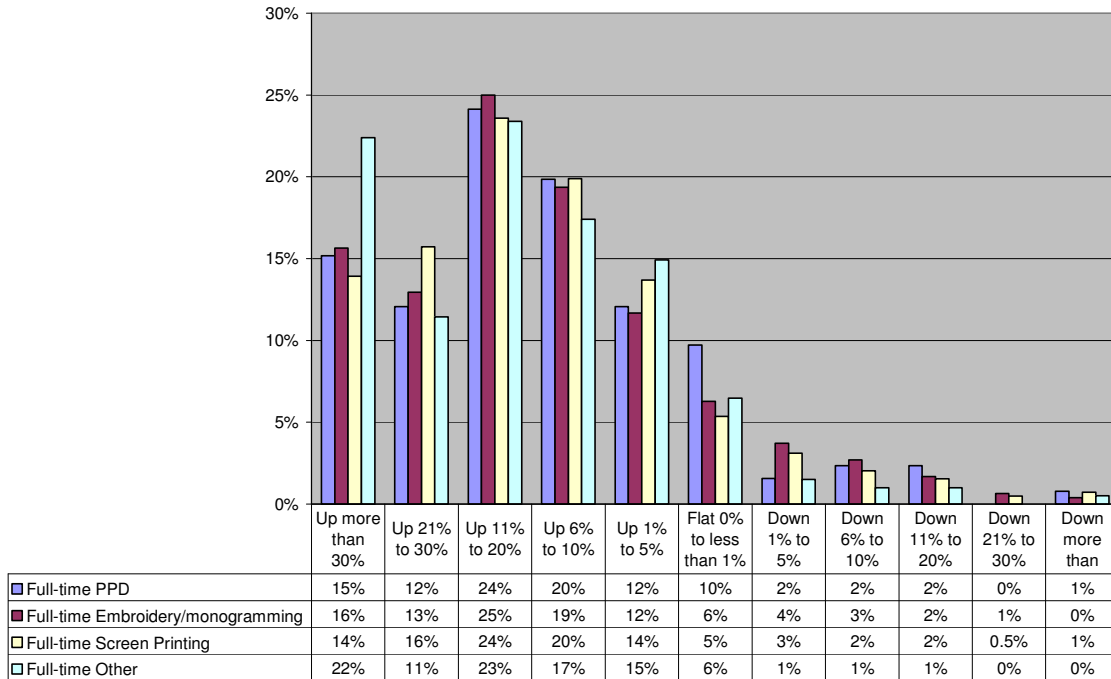
However, they also represent an undercurrent of change in the evolving decorated apparel industry, especially on the embroidery side. "I'm seeing a lot more people coming into embroidery today with the full focus of being a part-timer rather than I want to have a career," says Jimmy Lamb, director of education, Tajima USA Sales & Support, Hauppauge, N.Y. "I think part of it is we're seeing the industry reshape itself again. Where it was once multi and then , it's now going below that [level] almost to an extra income kind of thing."

Because we've dedicated a section of this report to this group, we'll focus the remainder of our remarks on the full-time businesses that account for 98% of our \$42.4 billion 2006 sales estimate.

### Positive Sales Picture

Of the major full-time segments we polled, only the catch-all category of "other" businesses was down from the year before, -2.2%, a figure that contradicts the optimism of the 85% who said their businesses were up. The good news here is that 61% said their businesses were profitable.

Which of the following best describes your company's revenue growth in 2006 over 2005?



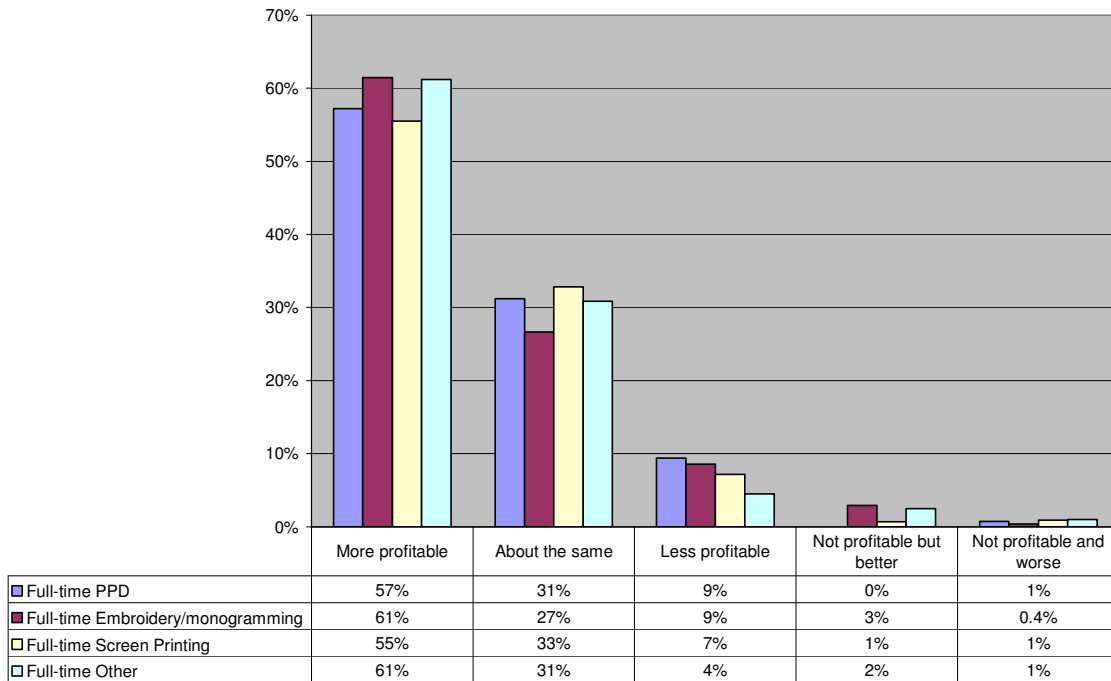
Of the estimated 2,100 businesses in the “other” category, 11% indicate their primary business is inkjet-to-garment printing, 38% heat-applied graphics and 38% a mixture of different pursuits, including such businesses as trophy and awards, signs, printing, alterations, gift, retail and garment manufacturing, among others.

Promotional products segment sales were up 6.7%, embroidery 11.5% and screen printing 6.2%. Of these groups, 83% of PPDs, 84% of embroiderers and 87% of screen printers indicated their businesses were up. The same segments also indicated they were more profitable compared to the year before: 57% of PPDs, 61% of embroiderers and 55% of screen printers.

In an industry as fragmented as decorated apparel, you can expect company performance to vary depending on factors ranging from the state of the local economy to sheer good fortune.

Larry Jernigan, owner of Pirate Printing, Dallas, Ga., attributes the 20% year-to-year gains in his business in part to his location in one of the fastest growing counties in the state of Georgia. "Our schools, parks, everything has grown so big," he says, "that instead

**How did your company's profitability in 2006 compare with your profitability in 2005?**



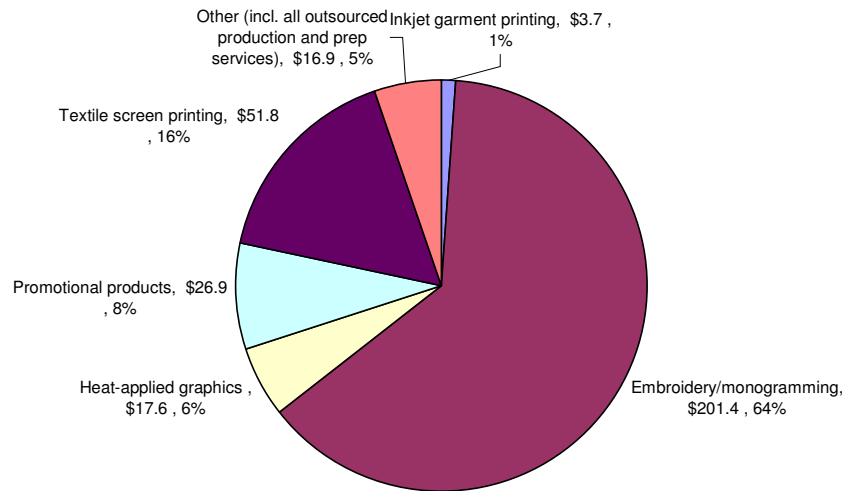
of doing 100 shirts for that school, we're doing 500 shirts for that school — on every event."

Jernigan also says that the quality of his company's work, combined with word of mouth and measured investments in the business have helped as well. "I believe in spending money to make money as far as buying the equipment we need, putting the people in here we need, and things like that to make us keep growing and growing," he says. That growth is leading to the opening of a new 6,000-square-foot facility, double the size of his current location, to house his custom screen printing and embroidery business.

In the upper Midwest, Dan and Janis Hamari are in their sixth year of operating an Embroidme franchise in Appleton, Wis. According to Dan Hamari, their business was up more than 20% in 2006, in part due to repeat business from his established customer base, and in part to a big order from a local company doing Katrina-related work. "I worry about everything, but it was a pretty good year for us," he says. "It's one of those where you get to the end, and you say, "I can't believe I did all that." However, minus a repeat of the one big order in 2007, Hamari expects business to be close to even this year. "We've kind of made this up with a bunch of smaller sales," he says.

For Jeff Liscum, his overall business was up 12% but embroidery business was flat. "I think that's predicated by the fact that there's still a steady demand for decorated (screen printed) apparel both in the corporate sense and for team business and for other kinds of stuff that I see," he says. "But the embroidery business seems to have swung out into two

**Snapshot of Average \$318,300 Total Embroidery/Monogramming Business Sales, 2006  
(thousands \$US)**



separate categories: one is the people who do a lot of volume and a lot of units and they want to price the product down, and then other people who are mom and pops or franchises or smaller operations that charge a much higher rate. And we're in the middle."

Turning to the West Coast, Ernest Aguilar, CEO of Lancaster Uniform Cap, Montclair, Calif., reported that sales were down 4% to 5%, only because he derives a part of his revenue from his long relationship with veterans' organizations, which are losing members as the World War II generation passes on. Because these organizations don't provide him information on their changing membership rosters, Aguilar says he was caught off-guard by the drop in membership and its impact on his business, which involves screen printing and embroidery operations, as well as divisions that produce custom apparel and embroidery for the automotive aftermarket and vinyl replacement seats for ATVs. Unlike 2006, Aguilar says he expects business to be up 5% in 2007. "We're reinventing ourselves," he says.

**Custom Apparel Focus**

With the exception of promotional products distributors, who typically operate as sales and marketing professionals and contract out their apparel decoration, the vast majority of apparel decorators today specialize in custom apparel graphics. By custom, we mean that the business sources and decorates in-house those items it sells to its customers, as opposed to items the customer supplies and for which the decorator does only the decoration, which may also include prep work. Of these, approximately 13,300 are focused primarily on embroidery and 15,200 on screen printing.

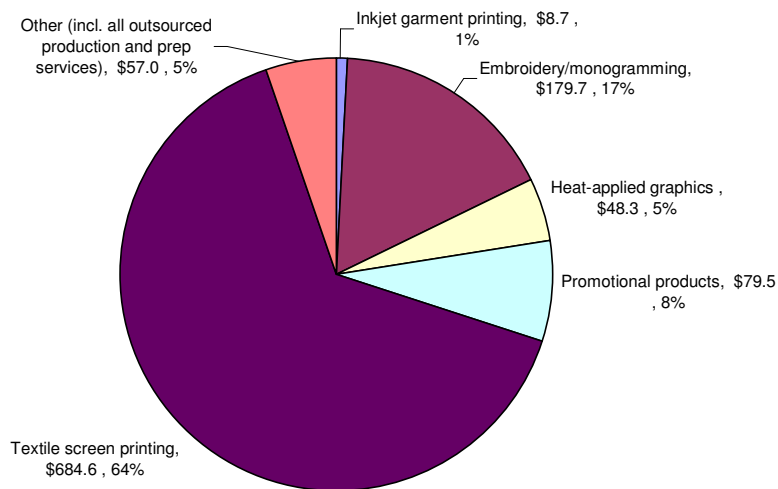
Of the sources that comprise the average revenue for full-time embroidery shops, embroidery sales account for about 63% of the pie, followed by screen printing (17%), heat-applied graphics (5%) and inkjet garment printing (1%). The remaining 14% is divided among prep services and outsourced production (5%) and promotional products (9%). About 59% of the items that full-time embroidery shops decorate are custom.

In contrast, 72% of the items full-time screen print shops decorate are custom. In terms of revenue sources, however, a screen print shop is almost a mirror image of an embroidery shop, with 65% of sales in screen printing, 17% embroidery, 5% heat applied graphics and 1% inkjet garment printing. The remaining 13% is divided among prep services and outsourced production (5%) and promotional products (1%).

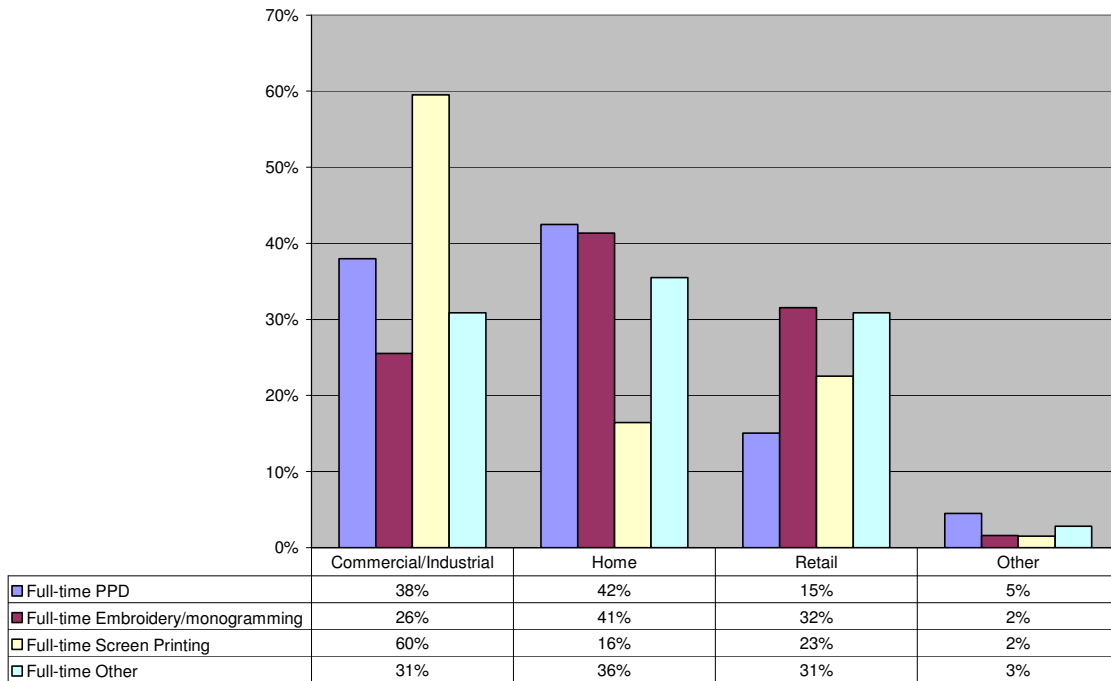
Lest the percentages fool you, keep in mind that the average revenue for a full-time screen printing business is \$1.2 million compared to \$453,000 for a full-time embroidery business. Even if we were to factor out the full-time home-based businesses, where the location limits capacity, we suspect there would still exist a substantial revenue gap between the two types of businesses. Our study shows that 41% of full-time embroidery shops are home-based vs. 16% of screen printing shops.

About 60% of the promotional products distributors who responded to our survey indicated they decorate in-house, with 43% of the items they decorate custom work.

**Snapshot of Average \$1.1 Million Total Screen Printing Business Sales, 2006 (thousands \$US)**



Which best describes your company's main location?



### Market Drivers

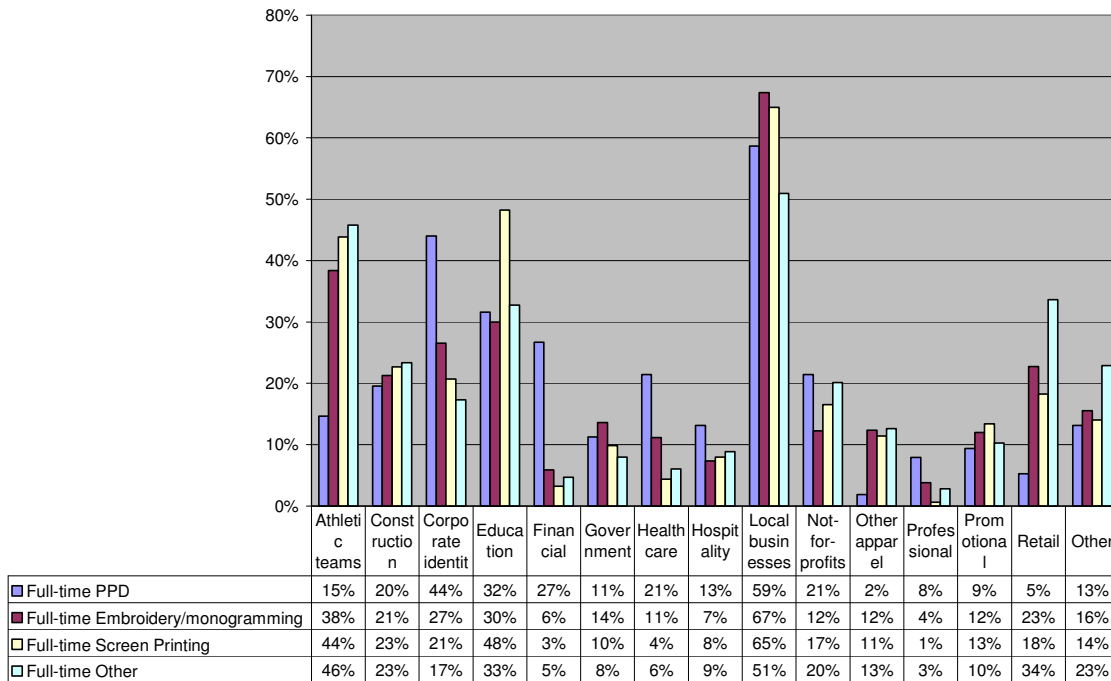
Screen printers, embroiderers, promotional products distributors and others in the decorated apparel business contend for customers in overlapping markets, the most important for revenue growth being local businesses. About the same percentage of embroiderers (67%) as screen printers (65%) indicate that local businesses represent their No. 1 market.

In contrast, only 59% PPDs indicate that local businesses represent their top market; however, the second customer group among their top three consists of corporate clients, making them clearly more focused on business customers as opposed to other markets, such as athletic teams and schools, where screen printers and embroiderers hold sway.

Jernigan's mix of customers is typical of the reach a well-run custom apparel graphics business can achieve in a local community. "We do schools, parks, government, restaurants, painters, landscapers, every market out there from local bike rides to the big events," he says. His company also serves local radio stations and corporations, even drawing from the outlying area, to which he credits word of mouth. "I've got companies that are driving from hours away to do business with us from somebody they know who's heard about us and seen our work." Through contact with a local person now working in Iraq, he's even shipping embellished caps and polo shirts overseas.

Local businesses also represent the bread and butter for Hamari, whose business includes not only Appleton but also the surrounding area with its total population of 175,000. "We pretty much cover everybody in our area," he says. "It's construction firms, insurance

Which top three customer groups contributed the most to your business growth in 2006?



companies, banks, credit unions. Any kind of businesses like that. We do a fair amount of school sport related activity, and a lot of groups and organizations. It's a good mix."

According to our study, 48% of screen printing businesses rank education their No. 2 market and 44% rank athletic teams No. 3. For embroiderers, 38% rank athletic teams as No. 2 and education as No. 3. At 32%, education also is the No. 3 market for PPDs.

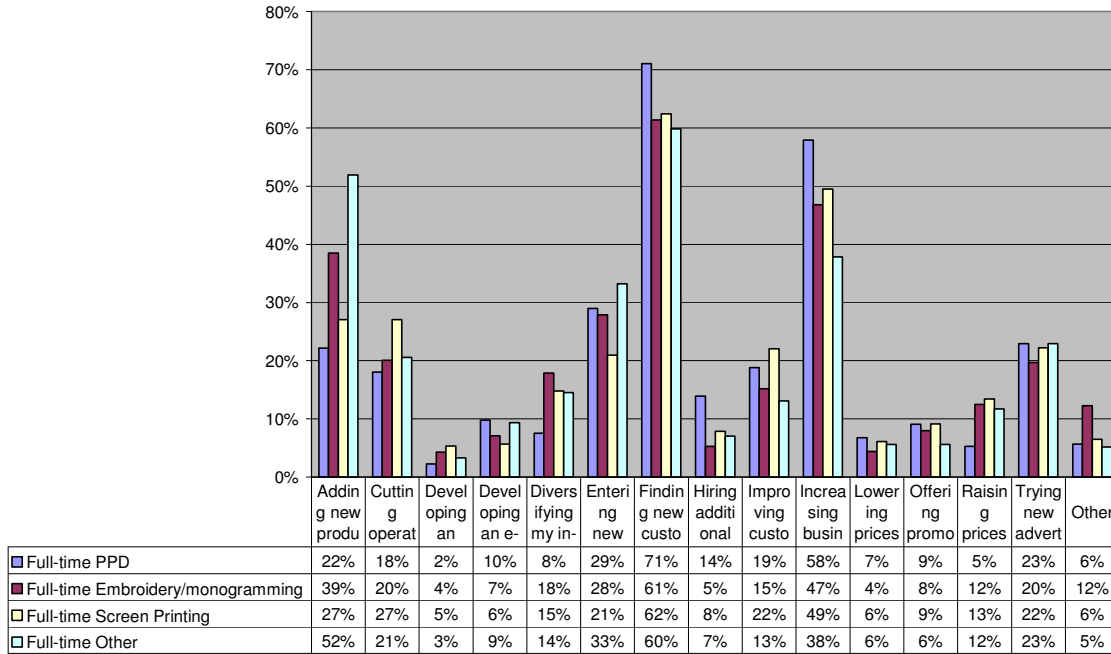
### Business Strategies

Apparel decorators and promotional consultants employ a variety of strategies to grow their businesses, with finding new customers topping everyone's list, followed by increasing business with current customers. Not till we come to everyone's third ranking strategy do we see any notable differences.

For promotional consultants, trying new advertising and marketing methods ranks No. 3 among this segment's top three picks. For embroiderers, adding new products holds that same place. And for screen printers, well, their emphasis was split between adding new products and cutting operating costs.

Other prominent strategies include improving customer service and diversifying in-house apparel decoration services. In particular, 18% of embroiderers and 15% of screen printers indicate plans to diversify their businesses with decoration services, despite the signs that many are already diversified. However, it should be noted that offering an array

**Which three strategies had the most positive impact on your company's revenue growth in 2006?**



of apparel decoration services doesn't guarantee making money from these services. In fact, while a high percentage of businesses offer more than one process, the percentage of revenue from anything but their core business appears to be low.

Still, the trend is definitely toward diversification, and those whose business model includes some combination of screen printing, embroidery, heat transfer and digital printing are in universal agreement on the positive impact of offering their customers more than one process.

Jernigan, who started his business 10 years ago, offered embroidery and screen printing from the get-go. "It's a huge, huge advantage to say we can do your embroidery as well as your screen printing on everything," he says. "Honestly, 75% of new companies want [embroidered] dress shirts, hats and jackets as well as screen printed T-shirts for their crews."

In contrast, Liscum, who started out with his wife as a home-based monogrammer in 1984 before developing a multihead embroidery business contracted out his screen printing till he purchased equipment about 13 years ago. When asked about the impact of diversification on his business, he said, "I should have done it sooner." He also pointed out that he sells promotional products to his mid-size customers who want to order from one source and trust him as a business partner.

Schlier and Aguilar also have added screen printing equipment over the years. Aguilar said he actually fought against adding screen printing until about two years ago, although

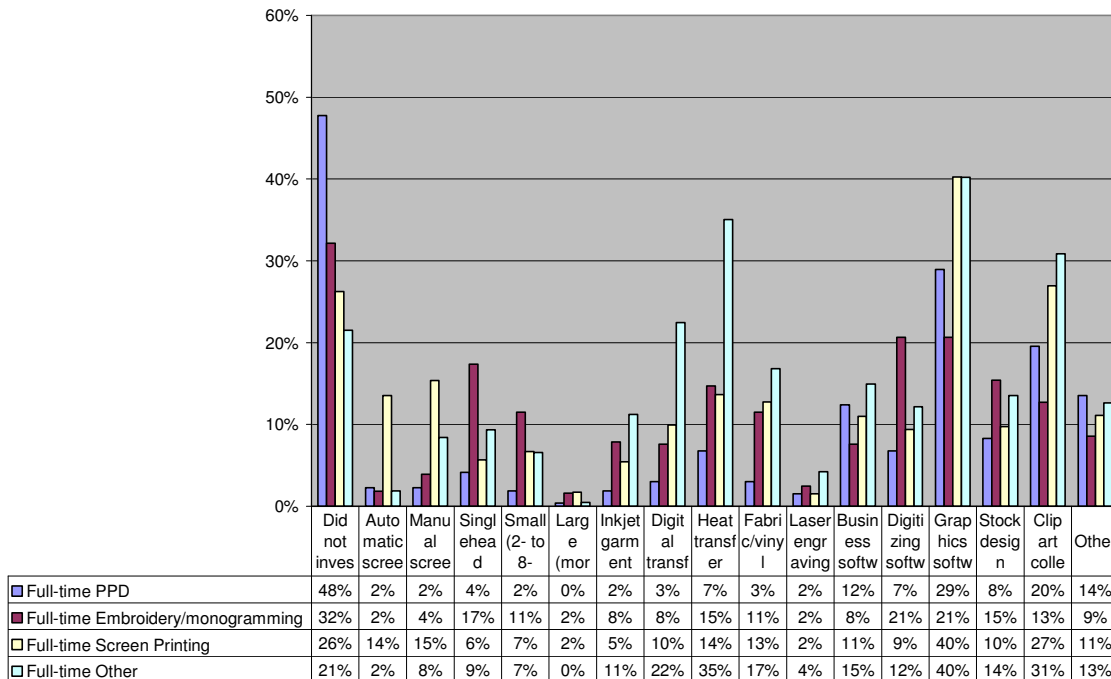
his company's corporate customers kept calling him asking for it. "It was good timing, because this guy was going out of business, so we bought all his screen printing equipment. Screen printing for us has just gone gangbusters," he says.

Schlier, who just added screen printing in 2004, said he's now looking into inkjet-to-garment printing. When we spoke with Hamari, he was expecting delivery of a garment printer. He also said that the printers were now part of the equipment package for new Embroidme franchises.

### Investments

About 74% of screen printers, 68% of embroiderers, and 52% of promotional consultants reported making capital investments in one or more pieces of equipment or packages of software in 2006.

What capital equipment (including software) did you buy in 2006?



In terms of their purchasing priorities, screen printing shops and embroidery shops are almost mirror images of one another, with 29% of screen printers investing in manual and automatic presses and 30% of embroiderers in various configurations of embroidery machines. Both groups also invested in heat transfer presses and vinyl cutters.

Decorators also continued to show interest in inkjet-to-garment printers, especially from embroiderers. "The ones to me who seem to want to do this as a full-time endeavor don't look at it as embroidery, they look at it as decorated apparel," says Jimmy Lamb, director of education, Tajima USA Sales & Support, Hauppauge, N.Y. "More of the people I'm talking with say I want to start this as a full-time enterprise. They've already been

<b>DECORATED APPAREL INDUSTRY VITAL STATISTICS 2006</b>			
	Part-time	Full-time	Grand Total
Revenue/business (thousands \$US)	\$ 37.0	\$ 1,002.1	\$ 787.9
Median revenue (thousands \$US)	\$ 20.5	\$ 224.7	\$ 119.6
Number of employees	2	7	5
Revenue/employee (thousands \$US)	\$ 23.6	\$ 149.6	\$ 145.3
Number of embroidery heads	1	9	7
Embroidery revenue/head (thousands \$US)	\$ 10.8	\$ 22.4	\$ 22.5
Number of manual screen print presses	0.4	1	1
Screen print revenue/manual press (thousands \$US)	\$ 17.3	\$ 296.8	\$ 274.9
Number of automatic screen print presses	0.0	1	0.4
Screen print revenue/automatic press (thousands \$US)	\$ 302.3	\$ 597.2	\$ 614.4
Total businesses	12.4	43.3	55.7
Total employees	19.4	290.0	301.2
Total revenue (millions \$US)	\$ 457.1	\$ 43,395.5	43,852.5
Percentage of total industry	1%	99%	100%
Net revenue change (%up minus % down)	64%	78%	75%
Revenue increase	10%	13%	12%
Not in business in 2005	13%	4%	6%
Years in business	6	12	10

*\*All figures are averages unless otherwise specified*

shopping for digital printers and heat transfer machines. They're looking at themselves as being a multi-media decorator and not just an embroiderer. It used to be the lines were drawn in the sand. I'm an embroiderer, I'm a screen printer, and the heat transfer people kind of danced around all that, but it was like one or the other."

Bob Orcutt, president, Coast Financial Leasing, Irvine, Calif., also notes this trend. "I see people going laterally," he says. "Instead of getting bigger equipment, they're spreading out, which is advantageous to them. They can sell two or three products to one customer. People like convenience today. They might pay a little more for it, but they like it."

In terms of software, embroiderers were equally divided among digitizing and graphics software, while screen printers invested heavily in graphics software.

The buying activity for promotional consultants included heat transfer presses and singlehead embroidery machines, but their main purchases were on the software side, with graphics software leading the way.

### **Forecasts**

We purposely didn't include forecast questions in this year's survey to keep the questionnaire short and facilitate response; however, judging by the past two year's performance and the upbeat outlook of the apparel decorators we spoke with recently, 2007 will be a good year for most and 2008 could deliver more of the same, though the optimism we heard was tempered with caution.

"I think it's going to be level," says Schlier. "But I stress always to myself that's why we're in three different areas of the business, because if one softens up, you have the two others to rely on. If you've noticed, almost every business is doing that, the large ones down to the real little guys. They're diversifying; they're having more product mix, because they really, really want to protect their turf."

Hamari, who already sees signs of a softening economy in certain sectors in his area, such as construction, is already planning to ramp up his marketing. "You just have to keep building your base," he says.

Aguilar, citing the impact of 100% increases in fuel prices during the last few years, is less optimistic. "Things don't look good unless the government does something about fuel prices," he says. "Electricity is going up. Our delivery costs are going up. And that's going to start hurting us. It's starting to hurt us now because we have customers in North Carolina and South Carolina, and we're shipping from L.A. They're starting to shift to their business to local people because they can't justify the price of shipping."

While Jernigan expects another solid year in 2008, he says his challenge is going to be not to try to grow too fast. "We're moving into a building that's double the size of what we're in now," he says. We have to be careful not to over-extend ourselves and try to fill it up right away."

"Even if the economy is as bad as it might get, we're still going to sell about the same number of units in apparel," says Venit. "For companies with serious constraints on any kind of discretionary spending, there's going to be some shrinkage. But by and large, the core of athletics, events, most promotional stuff and corporate identification applications including uniforms, the numbers will remain level barring shrinkage in employment."

### **METHODOLOGY**

The 2007 *Impressions* Decorated Apparel Universe Study is based on an e-mail survey delivered to 23,401 *Impressions* and former *EMB* subscribers and Specialty Graphics Imaging Association and Promotional Products Association Intl. members from June 13 to Sept. 17, 2007. A total of 2,884 complete questionnaires were received for an effective response rate of 12.3%.

Based on an estimated population of 55,657 decorated apparel companies, the overall survey has a confidence factor of 95% with a margin of error of +/-2%.

Data on the various industry segments are based on the following population sizes and have the following confidence factors: Promotional products (14,169; 95%; +/-6%); embroidery (20,269; 95%; +/-3%); screen printing (18,176; 95%; +/-3%); and "other" related decorated apparel businesses (3,043; 95%; +/-5%).

For information not shown in this summary report or other inquiries, contact Richard Lebovitz, editorial director, *Impressions*, (800) 241-9034; email: [rlebovitz@impressionsmag.com](mailto:rlebovitz@impressionsmag.com).

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