



**Spring
2024**

carolina clean



North Carolina Association of Launderers & Cleaners

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An Affiliate Association of the Drycleaning & Laundry Institute

Don't Set Your Prices Based on Your Costs

*by Deborah Rechnitz
DLI Inner Circle Facilitator*

I started working with cleaners in 1980. Back then, I was asked if prices should be based on a company's costs. In 2023, I still have cleaners asking if they should set their prices based on their costs. My answer remains the same. Let me explain.

To begin, let's define cost-plus pricing. Cost-plus pricing involves calculating your breakeven where total costs equal total revenues, then applying a markup percentage to those costs to reach a selling price. This process can involve individual items or groups of items. Retail brands aim for a 30 - 50% profit margin, depending on the items and competitive environment.

The next step is to take this basic definition and create a real world application for this industry. A company needs to know its variable costs, total fixed costs, decide how much to markup the costs, and then set a price.

A company with revenue of \$100,000 per month, might have total costs of \$70,000. With 7,000 pieces, the cost per piece, without a mark up, is \$10.00. What would that tell you? You lose money on shirts and make it back on wedding gowns and household? You already know this.

Will the result be any different if you cost individual items? After all, labor costs per shirt are less than other items. Is this a worthwhile exercise?

Consider a sample cost structure -
Utilities: 4%

Convention Returns to the Beach

North Carolina Association of Launderers and Cleaners (NCALC) will hold its 2024 Annual Convention May 24-27, 2024, at the Doubletree by Hilton at Atlantic Beach. Members, friends, families, and guests will convene for this Memorial Day Weekend event for association business, education, information exchange, professional networking, fellowship, and lots of fun in the Atlantic Beach area.

Among the planned activities are several educational sessions covering topics including marketing, becoming better operators, selling family businesses, challenges facing our industry, and finding joy and fulfillment in our industry despite its challenges.

In addition to NCALC leadership, the following speakers and guests have been confirmed for participation in our professional program:

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From the President's Desk

The Future Looks Bright

I am writing this column after returning from the NCALC Winter Board Meeting in Durham. We had a great turnout of Cleaners and Allied Trades and were hosted by Rita Foley, Mike Foley, Mitzi Forrest, and Paul Goodson all of Durham. The food was great, the networking was outstanding, and the Education session was spot on. We learned from four NC industry leaders the steps they have taken to rebound from the 2020-2022 pandemic challenges.

The consensus of this meeting is that the future of dry cleaning in NC is looking up. Costs are up, but so are our prices. Many attendees report increased profit margins equaling or exceeding pre pandemic levels. Our Allied Trades members are also reporting stronger demand for equipment, supplies, and services. We have more Business Partners investing in our Association than any time in recent memories.

Our committees met and reported to the board and attendees.

Education and Training has a plan to provide a top-notch program at convention this year and are working on other opportunities throughout 2024.

The Government Relations committee reports that the Dry Cleaning Solvent Cleanup Program continues to address past releases, and inspections are helping us comply to prevent future contamination.

Our Membership committee has been hard at work to maintain and grow membership after several years of decreases in the number of members.

Our NCALC and DLI balance sheets are strong with both reporting a surplus thru December 31, 2023. Both of your associations have reserves that have grown over the last several years.

Your Board meetings are open to all members and non-members, and I personally learn something we can use at every one of these meetings. If you are not making the time to come, you are missing out.

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NCALC 2024 Business Partners

We extend a special thanks to our 2024 Business Partners who have helped in conducting our work to promote and support the Fabricare Industry in North Carolina. Business Partners are those Associate Members who have gone well beyond the basic affiliation of membership, to invest financially in our activities.

We extend a special thanks to these NCALC Business Partners who have helped to financially underwrite the activities of NCALC through their significant financial support (e.g. sponsorships, advertising, and other contributions.)

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Don't Set Your Prices Based on Your Costs

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Supplies: 6%

Direct production labor plus related payroll costs: 25%

Marketing & distribution costs (route and store expenses): 25%

Plant and overhead (excluding executive compensation): 20%

Production labor, supplies, and utilities are often considered variable costs in that they should go up and down with volume, but we also know that as volume drops, these costs do not drop in direct proportion to volume. Employees may slow down as volume falls. You may or may not turn your boiler off earlier. Electricity, water and sewer have fixed fees associated with them. This leaves supplies as your only variable expense. How does that affect your calculation?

You also have standard fixed costs. Your marketing, distribution, plant and overhead costs are fixed regardless of the amount of pieces your process. They don't move as volume changes unless there are big swings in volume. Store expenses, for instance, both rent and labor, stay the same no matter how busy you get, but at some point you add a store or cut hours and then the results change significantly. Do you refigure your cost structure?

What happens when you swap out labor for an automatic assembly system? Do you refigure your cost structure again?

What happens if your volume increases? Your cost per piece falls only because your fixed costs are spread over a larger number of pieces.

What happens if you're actually inefficient? Are you setting your prices based on poor operations?

Before you begin calculating cost-plus, you should not only consider the time and effort involved, but also how you plan to use the data.

An alternative pricing strategy for this industry and your brand

We are not fast fashion. We are not the grocery store business. We are not manufacturers. We take other people's garments, provide a service, and return the same garment after a period of time. This makes the cleaning industry unique and requires a thoughtful pricing strategy that takes into consideration your target customer, the customers' willingness to pay, what your competitors' charge for similar quality and services and perhaps, most importantly, how elastic the demand is for your services.

Your Target Customer

Take a look at your company from your customers' perspectives. The majority of operators are "middle of the road". Pricing is similar to the competition, quality is similar and there is a similar level of customer convenience.

Would you consider dropping your price if you determine your cost-plus price is lower than your current prices? The hope is that you gain enough volume from your competitors to make up for the price drop. In this industry, customers frequently go somewhere for convenience, on time delivery, and quality; not for small price changes when there is a high degree of similarity among middle market operators. A drop in price may fail to achieve your volume goal and result in lower profits.

Are you priced at the lower end of the market? Price is more important to your customer who might drive a little farther for a lower price. You must manage your costs as tightly as you can, but if you're in this market, you already know this without looking at your cost per piece.

You might consider changing your price to increase profits. Lowering your price is based on the assumption that your volume will go up. How much lower must you go in order to convince more customers to change cleaners? If you increase your price, how many existing customers will leave and more than offset the higher price?

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Don't Set Your Prices Based on Your Costs

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If your prices are on the high end of the market, often 20-30% higher than the majority of the market, what will cost-plus tell you? How will you use the information? You currently set your price based on a high quality level, loyal customers and word of mouth referrals. Cost-plus may let you know that you should be charging even more in order to earn your 30% EBIT-DA, but a good financial statement will already communicate that to you.

High Elastic Demand

Elastic demand is a critical component, and often overlooked factor in the cleaning industry. When a product's price significantly affects consumer demand, it has low elastic demand. When the price drops, people buy more. When the price goes up, they buy less. If you're using a cost-plus pricing strategy, you want to apply it to products with low elastic demand.

Fast-fashion clothing, for example, has low elastic demand. Customers will jump from one brand to another at the slightest change in price. This is not what happens in the cleaning industry. Retail cleaning services have much higher elastic demand. A minor price change is unlikely to change the customer's behavior as long as quality and on time delivery remains constant.

Market testing is required to determine how much price reduction is required to gain market share. In some cases, a discount of up to 50% is required for customers to move from their existing cleaner. This becomes a marketing strategy, not a general price setting policy. A higher price may be possible based on the value your customer perceives with a strong brand and quality to support it. Both pricing strategies are unrelated to your cost structure.

What to do?

Are there advantages to calculating your costs for each service? On the surface it's simple to talk about and seems simple to figure out. It's easy to justify as it seems fair and less arbitrary.

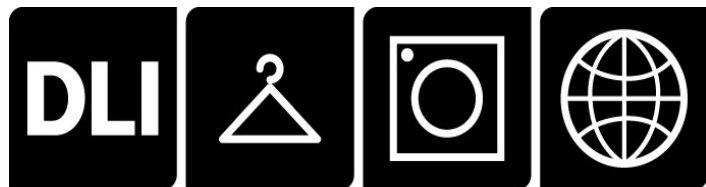
Do the disadvantages outweigh the advantages? Cost-plus pricing does not easily take into account demand or competition. You could be charging too much for your services leading to lost sales and lower profitability or too little hoping that volume offsets lower prices. Additionally, cost-plus pricing does not motivate you to reduce costs, but rather leads to higher prices and, potentially, lost sales. Finally, cost-plus pricing doesn't take into account the customer's willingness to pay where there is high elastic demand.

Choosing a price for your products and services is a big decision. It determines your ability to attract customers, what services you sell, and contributes to your profitability. A strong pricing strategy enhances your business' competitiveness and earns more sales. The seemingly simple approach is not necessarily the right approach.

About the Author -- Deborah Rechnitz is a leading international business consultant, serving the laundry and dry cleaning industry members since 1980 and holds advanced degrees in Finance, Human Resource, and Operational Management. For nearly 30 years, she owned an independent consulting firm, later became the Chief Operating Officer of a \$30 million dry cleaning company, and served as an active Director with GreenEarth Cleaning Australasia. She is now a facilitator for the DLI Inner Circle. Rechnitz can be contacted at drechnitz@gmail.com.



Deborah Rechnitz



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- Nominations open April 1
- Recipients will be announced later in 2024
- Open to all drycleaners, launderers, allied trades, consultants or any professional involved in the drycleaning and laundry industry
- Association membership not required to nominate or receive award
- Learn more about the program at DLIonline.org/HoF

Professionals in our industry make a positive impact on the lives of many people everyday. DLI's new award program is designed to recognize some of these individuals and thank them for their positive contributions.

DLI's Board of Directors invites you to nominate inspirational industry professionals for the industry's highest honor.



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"May the road rise to meet you,
May the wind be always at your back,
May the sun shine warm upon your face,
The rains fall soft upon your fields.
And until we meet again,
May God hold you in the palm of his hand."

~Irish Blessing

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Associate Member Listing (Alphabetically by Service)

NCALC Associate Membership is extended primarily to providers of equipment, products, and services to launderers and cleaners. (e.g. manufacturers and distributors, consultants, training providers.)

Consultants

ATC Associates of NC, P.C. - Ashley Offer,
919-871-0999

The Route Pros - Mark Albrecht, 304-410-5816

Equipment Sales & Service

EzProducts International, Inc - Diane Rue, 877-906-1818

Forenta, LP - Craig Forsey, 423-586-5370

Mountain Electronics - 828-675-9200

Sankosha USA, Inc - Wesley Nelson, 847-427-9120

Tri-State Laundry Equip Co - Kevin Lawson, 336-992-5218

POS Computer Systems

SMRT Systems - Rick Mugno, 919-651-0937

Xplor Spot - Wash Respress, 801-208- 2257

Specialty Services

US Leather Cleaning - Jeff Schwegmann, 800-232-0792

Supplies

FabriClean Supply - Scott Gribbin, 800-272-0540

Fabritec International - Wes Brunson, 859-653-5609

Gurtler Industries Inc - Harold Smith, 919-880-3234

Kleerwite Chemical - Bill Carli, 804-721-8853

Kreussler - David Knight, 919-280-1040

N.S. Farrington LLC - 800-722-0374

RR Street & Co - Richard Moore, 980-258-3515

UNX Industries, Inc. - Jessica Nobles, 252-756-8616

Convention Returns to the Beach



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- Kathy Benzinger, Benzinger Clothing Care, DLI President
- Ryan Fish, Red Hanger Cleaners
- James Gorzynski, NewLeaf Brokerage
- Phillip Kolb, NewLeaf Brokerage
- Liz Vetter, New Leaf Brokerage

The convention could not be produced without considerable support from our sponsors. See the list of sponsors above. Many of these industry allies will also be presenting table-top exhibits to share the latest information about the critical products and services they pro-

vide for our industry.

The election of new association officers and directors will occur during the annual membership business meeting to be held on Saturday morning and then will be installed at a recognition dinner on Sunday evening. The Board of Directors will meet jointly with the annual membership meeting and the standing committees will hold separate meetings to conduct business of the association.

More details and online registration information about the 2024 Annual Convention are available on our website at <https://ncalc.org/events>



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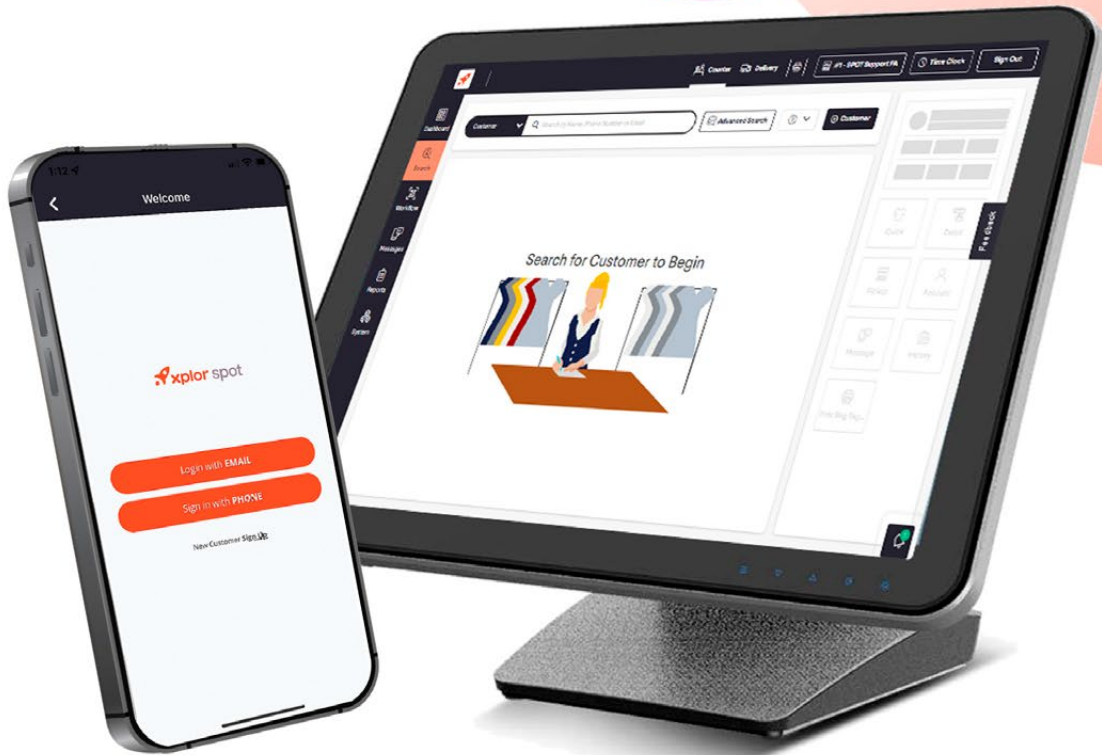
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NCALC Information Directory

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NCALC OFFICERS AND DIRECTORS

Office	Name	Employer	Phone
President	Chris Edwards	A Cleaner World	336-841-4188
VP Admin/Pres-elect	Kyle Panther	Martinizing Charlotte	704-787-1022
VP Government Affairs	Rita Foley	Regency Cleaners	919-286-7421
VP Membership	Ron Troy	Prestige Green Cleaners	919-309-4400
VP Education & Training	Larry Hill	Dandy Drycleaners & Laundry	704-333-6111
Secretary	Patrick Collins	Collins Cleaning & Valet Inc	704-634-6571
Treasurer	Jimmy Lee	Jones Dry Cleaning	704-375-5741
Sergeant-at-Arms	Scott Lloyd	Durham Cleaners & Laundry	919-493-7755
Immediate Past President	Allan Cheatham	Shallotte Dry Cleaners	910-754-4435
Allied Trade Representative	David Knight	Kreussler	919-280-1049
Director-at-Large	Wes Brunson	Fabritec International	859-653-5609
Director-at-Large	Kyle Crumpton	Nuway Cleaners	336-599-3455
Director-at-Large	Brian Harrell	A Cleaner World	336-841-4188
Director-at-Large	Lee Lawson	Zibby's Cleaners	336-767-3232
Director-at-Large	David Lee	SMRT Systems	251-572-0557
Director-at-Large	David Makepeace	Medlin Davis Cleaners	919-524-2845
Director-at-Large	Richard Moore	RR Street & Co	980-258-3515
Director-at-Large	Cooki Patel	2001 Cleaners	704-564-8782
Director-at-Large	Harold Smith	Gurtler Industries Inc	919-880-3234
Director-at-Large	Marvin Thomas	Swannanoa Cleaners	828-253-3691
Director-at-Large	Tom Wilson	American Cleaners	828-648-2817

NCDEQ: DSCA Program 919-707-8200 Compliance 919-707-8358, Environmental Assistance: Tony Pendola 919-707-8112
DLI (800) 638-2627 / Mary Scalco, CEO, ext. 1101 / Jon Meijer, VP Membership, ext. 1301 / Analysis Lab, ext. 1701
DLI District Two Director Norman Way, 804-399-1059

Important Dates

All these upcoming events are open to NCALC members and friends. Advance registration is usually required for the NCALC events.

Mark your calendars and plan to participate. Watch your email and the website (www.ncalc.org) for details.

May 2, 2024

DSCA Stakeholders Meeting

In-Person Location TBA plus

Virtual via Microsoft Teams (Details TBA)

May 24-27, 2024

NCALC 2024 Annual Convention

DoubleTree by Hilton Atlantic Beach

Oceanfront Hotel

2717 West Fort Macon Rd

Atlantic Beach, NC 28512

The Future Looks Bright

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Thank you again for the opportunity to serve as your President. Thank you to the many Board and Committee members who have served for the past two years. We hope to see you in Atlantic Beach for our 118th Annual Convention for Memorial Day Weekend.

This will be my final newsletter as your President, as I will be turning over the gavel in May to the very capable Kyle Panther to serve you for the next two years. Let's keep our industry going in a positive direction.

Yours in Service,
Chris Edwards
NCALC President 2022-2024
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NCALC 2024 Winter Meeting Highlights

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