



#3

benchmark bulletin

Welcome to the third MyCake benchmark bulletin. This is the first of two issues focussing on companies of 2–10 people, £250–750,000 turnover who are working out how to deal with growth. In this bulletin we'll focus on the short and medium term challenges of sorting out your income and costs, and in number 4 we'll look at how you fund your own research and development so you can launch your own products and services, rather than just dance to the tune of client briefs.

If you find this information useful sign yourself up for an account at www.mycake.org as it will enable you to benchmark the specifics of your business. You can also subscribe to our blog and email to learn more.

Are you at the 'Feed the Monster' stage?

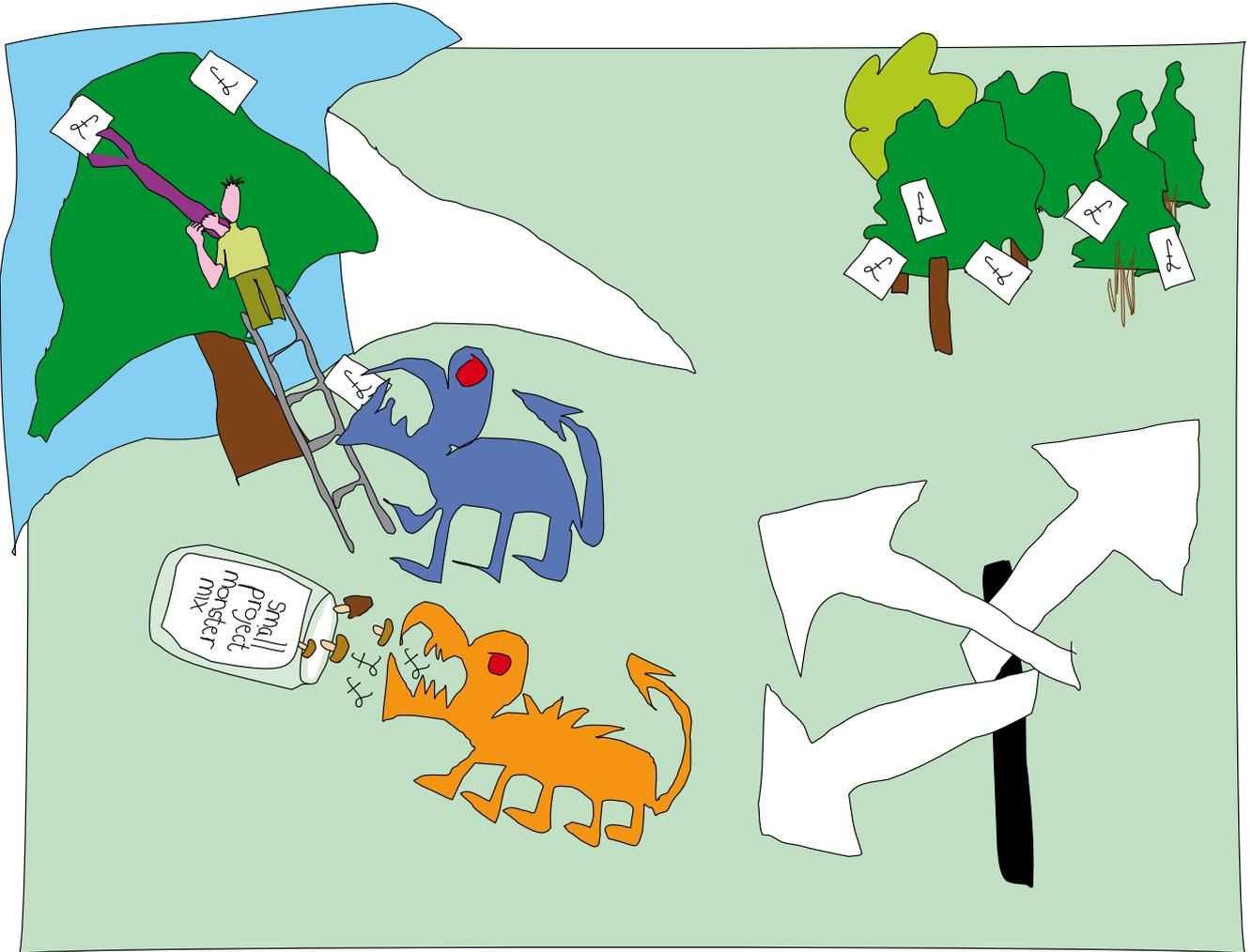
We thought we'd ask this question because quite a few companies at the early growth stage find themselves working all hours to win projects, find appropriate staff and freelancers to help with the delivery, and start to wonder if this was really why they bothered growing from being a freelancer. You feel like you're

probably making progress towards getting bigger clients and hope that it won't be long before people are queueing up for your innovations, but you're not quite sure how to get from where you are now to the fulfilment of this vision. Here's how you can tell if you're feeding the monster.



Turnover: Wages or Production

The turnover of the company is going up but MyCake benchmarking shows that you're spending a high proportion of it (up to 50%) on production costs and/or labour. This means that neither are you creating enough retained profit to fund growth,



Are you so busy finding & delivering work that you've ended up feeding the monster without realising it?

nor are you reaping the rewards personally. Where's the fun in winning more business if you just parcel it out to others?

You will need to spend a chunk of time on 'management' and 'sales' activities and your creative contribution is strategic rather than the detailed stuff but keep an eye on the balance. Remember that you need jam today as well as in five years' time if you are to maintain enthusiasm. Being too tired for words is not the right environment for generating brilliant new ideas!

Service based businesses (digital media agencies, games folks, graphic design firms—we mean you here)

There are a clutch of you out there who are spending in the region of 50% of your turnover on wages.

THIS IS A LOT! Particularly when a whole chunk of it is on freelancers and subcontractors. We understand that people are your greatest resource, they are your source of creative ideas, they deliver your projects.

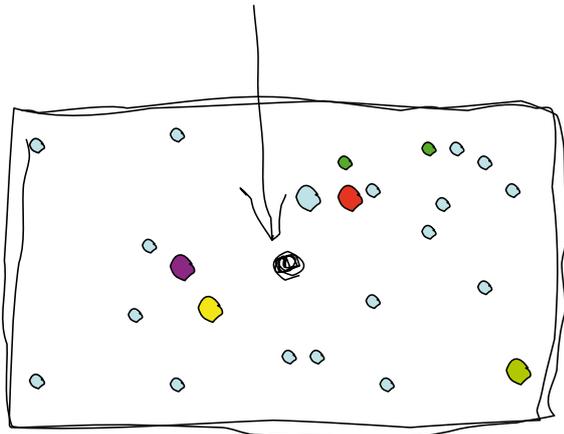
But ask yourself these questions:

- What is the split of your labour bill between employed staff and freelancers? If you felt more sure of your pipeline of business could you shift from freelancers on projects to employed staff (even if it's only a short term contract, or part time)?
- Do you use different people per project or the same people/skill sets regularly?
- Based on the benchmark data there's not a lot of money (less than 1% of turnover) going on training in businesses at the 2–10 employee stage. If you

had longer term projects, would you invest in staff training rather than going out looking for those who already have the skill levels you need? Providing staff training tends to have a positive effect on their loyalty to you. As a rough rule aim for 2–3% of turnover to be spent on training.

- By the way, who owns the IP when you use freelancers? Are your contractual terms consistent with your commitments to your clients and your need to develop in house IP?

*This is you in a constellation
of small projects*



Product based businesses (product designers and fashion folks for example)

If you're spending more than 30% of turnover on production costs you should take a closer look at this area. Ask yourself these questions:

- Can you reduce your unit costs, negotiate better rates with suppliers/manufacturers, or invest in bigger batch production?
- What is the ratio of wholesale to retail clients?
- Should you consider licensing your products to larger manufacturers so that they can take on the marketing as well as cover production costs?
- If you don't license your current products should you be setting up a separate income strand of design under licence work?
- Do you target which independent retailers are best for your range or do you try and sell to everyone?

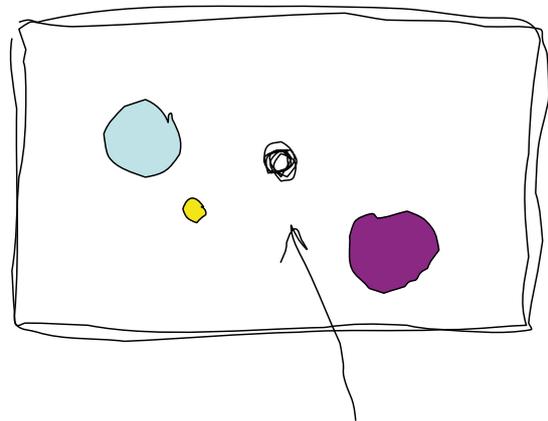


Income by Customer

There are two common scenarios here; either all your work comes from (literally) one or two key clients, or alternatively you do too many small pieces of work. You'll know instinctively which is the greater risk for you, but if you run an 'income by customer' report in the book-keeping side of MyCake it will give you a concrete answer.

If your income looks like either scenario you will need to change your mixture of small, medium and large clients in order to grow your business.

There are a few useful rules of thumb to consider here:

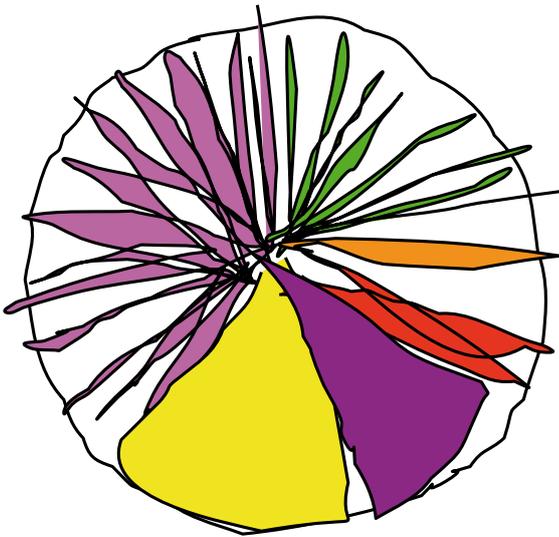


*This is you oscillating between two large
clients and struggling to find time for the
small one (where the growth is)*

- Eighty percent of your business from 20% of your total customers is normal
- 20–30% of turnover coming from any one client is risky ... **DIVERSIFY**
- If more than 30% of your business comes from a huge number of small clients you are spreading yourself too thin for too little reward ... **CONSOLIDATE** or increase the value of sales to these folks.

Just keeping current clients happy is a profoundly bad idea. You need a wide and varied network of potential clients to help mitigate your risk, especially in this economic climate.

KATZ KIELY, JUST-B PRODUCTIONS



Too many small clients Suggestions: consolidate them or grow the value of each projects

How to tame the monster.

Okay, so you're feeding the monster. The good news is that there are plenty of things you can do to work yourself out of this situation. We're going to focus on growth oriented solutions. There are two parts to this ... your income streams and your cost base.

Income

If your income falls into either of the patterns above you will struggle to grow the company by doing more of the same.

Here are some questions to help you work out where growth could come from in a more sustainable way:

- In both £ and time what constitutes a small piece of work, a medium one and a large one?
- What is your turnover goal in the next 12 months?
- What mixture of small, medium and large projects would fit the resources you have, the risk profile you'd like for your business, and the market you're in?

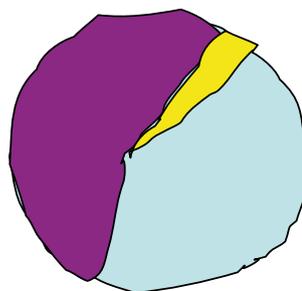
For those with too few customers, take a look at the sorts of work you've delivered over the last couple of years and think about whether you could pitch something similar or a next stage on to some new clients. How could you use the success with these key clients to find new ones? Are your core clients using you for day-to-day stuff, or for their more innovative needs and what mix of bread & butter projects vs. innovative ones would work for you?

For those of you with too many small clients what are the common themes or areas of work? Is this where you want to be? Are you offering bespoke solutions where more generic ones would suffice? Do the small clients pay well or are they more hassle than they're worth. It is reasonable to set minimums for clients ... either minimum orders (for those with products) or minimum purchases of time. Do you have a scatter gun mix of clients and could you consolidate into 3-4 key activities or areas of work? Are there small clients who could be built up into larger ones? Would your time be better spent pitching for more substantial projects?

Costs

From looking at the benchmark data most people at this level have got themselves sorted in terms of appropriate rent (5-8% of turnover), travel (2-4% of turnover), utilities (1-2%), professional fees (3-5%). The three areas that need work are:

- the wages bill and/or your production costs
- your marketing spend
- your research & development spend



Too few clients Suggestions: grow the smaller one and find some new clients

That's better, a steady diet. Sated, not starved or bloated. I'm in the mood to rustle up my own invention ... a palate cleansing R&D sorbet anyone?



The first of these tends to be consistently too high, the latter two are too sporadic.

This suggests that you're hiring against projects rather than planning for your current and future needs and building a team accordingly. You need to shift your mindset from being project based to the growth of long term value. Not only do you need to review your use of freelancers and subcontractors, but you will need to invest in finding employees ... some freelancers might convert to employees but the more admin & project management side of things e.g. a studio manager is something you'll have to go looking for.

Another way of thinking about this is, what are the core skills that you need inside the company rather than as freelancers? It is cheaper and more stable to have employees, plus you can get them to work on internal projects rather than just on the stuff clients are paying for. Can you keep your wages bill to less than a third of your turnover? Or alternatively can you keep the permanent employee costs to below 20–25% of turnover and only use freelancers on specific projects?

If your production or manufacturing costs are beyond 30% of your turnover, can you change your manufacturing processes to something better suited to higher volumes? Can you also add licensing as another strand so that it's not just your business that has to cover all the production, distribution and marketing cost for everything you do?

If you are also going to need to shift the balance between small, medium and large projects you will need to find more resources for marketing. As a rule of thumb expect to spend somewhere between 5–10% of your turnover on marketing (depending on sector and how much of a push you're doing).

The consideration of R&D spend is a longer term question. If you are to grow from the 2–10 employees or £250–750k turnover stage, you need to give serious thought to how you move from a project based income stream, where you respond to client briefs or existing market trends, to the development, launch and sales of your own products & services.

There are a number of routes ... you might fund it out of your revenue from projects ... siphoning off 10% of turnover over several years. This might be enough to fund early stages or even whole small projects. However, it's one thing to find £30,000 and another to find £250,000+. When you're looking for larger sums it becomes a whole other game ... fodder for a separate benchmark bulletin on firms with investment!

So, by this point you should have a few things on the list to look at in more detail. If you'd like to benchmark your own business in more detail you'll need an account at www.mycake.org.

If you'd like more than virtual assistance in working out what to change and how to grow then drop us a line at sarah@mycake.org.