

In this our 8th bulletin we've decided to look at how the profile of your business model changes as the business grows. As ever the data is drawn from our users so it's real creatives with real businesses that drive both the data and what we do. This bulletin should help you ask questions about your progress so far and set some goals for the year ahead...

#8 | benchmark bulletin

What, why, who and how of the benchmark bulletin

The Benchmark Bulletins are designed to be an easy digest of some of the headline findings from the dataset we hold on the nitty gritty of the finances of small creative businesses. As ever we'll only publish aggregate data on the cluster as a whole and we don't ever publish any data on individual businesses.

Highlights from the 2015 data to think about in 2016

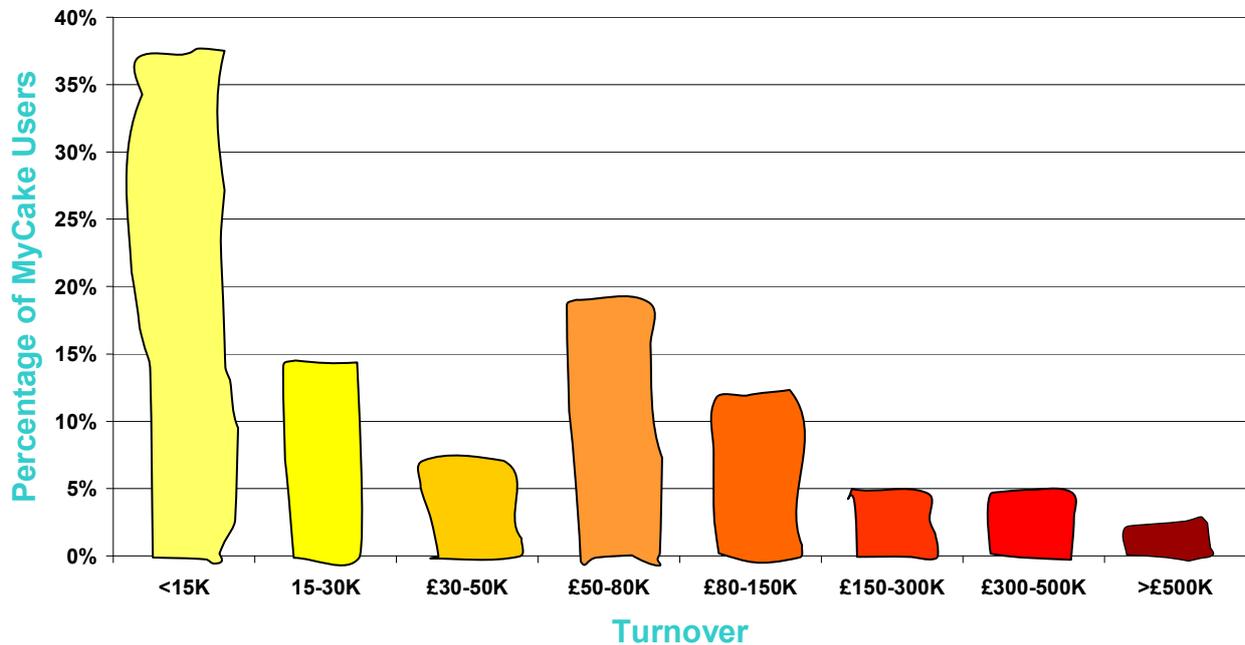
The average turnover for a MyCake user in 2014 was approximately £85,000. However as some MyCake businesses

are well over ten years old and have two or three founding partners and others have just started and are sole traders it is perhaps more useful to point out that the highest turnover for a MyCake user in 2014 was heading towards £1.5m (a product based business by the way) but if you're turning over more than £75,000 you'd be in the top 25% of MyCake users.

Later in this bulletin we'll split out the different picture for young businesses that are just starting from the picture for more mature businesses with a few years under their belts as there are quite a lot of differences that would get missed if we just talked in averages across the whole dataset.

If that's the turnover then what's the profitability? And what does this mean in terms of the average taxable income for these small creative businesses with 1-5 people in the core team?

Range of turnover values in the MyCake community



On average the income per team member is about £38,000 per annum (for 2014). By the time you take off the cost of production that drops to a gross profit of about £28,000 ... and once you take off all the staff and other running costs you're down to an average net profit per head of about £23,000.

The good news is that this is above the minimum wage (currently £11,574). However this comparison doesn't reflect the education and experience of most creative. If we are comparing young creative businesses then perhaps we should compare this average net profit per head for MyCake users of £23,000 to the average graduate wage? Opinions and sources vary but it is in the range of £20-30,000. When we take into account that many small creative businesses don't hit this average turnover or profit for the first 3-5 years it is reassuring to know that some of the older, more established (and indeed successful) businesses are

delivering a net profit of over £200,000 per annum.

What this says to us sitting here at MyCake Towers (actually a 1930's apartment block in Surbiton) is that it is all fine and dandy to test out your ideas for 2-3 years if you can earn a living through other means (whilst your turnover is under £10k and your profit negligible) but you need to set some growth targets that give you payback over the long term to



make up for the early years of living on baked beans and ingenious variations of dal (we like dal, we're not anti-dal we just think that occasionally you might fancy lobster). That is to say, don't just aim for a higher turnover to reach a good graduate or indeed experienced professional wage equivalent but also build in some extra rewards for the risks you've taken and the financial fragility of the early years. You'll certainly have earned it! So look again at that statistic that some MyCake users are in a position to pay themselves £200,000 a year and ask yourself 'and why not?' ... seriously, some creatives still feel that financial success is tantamount to selling out and we don't agree. We think you've bloomin' earned it.

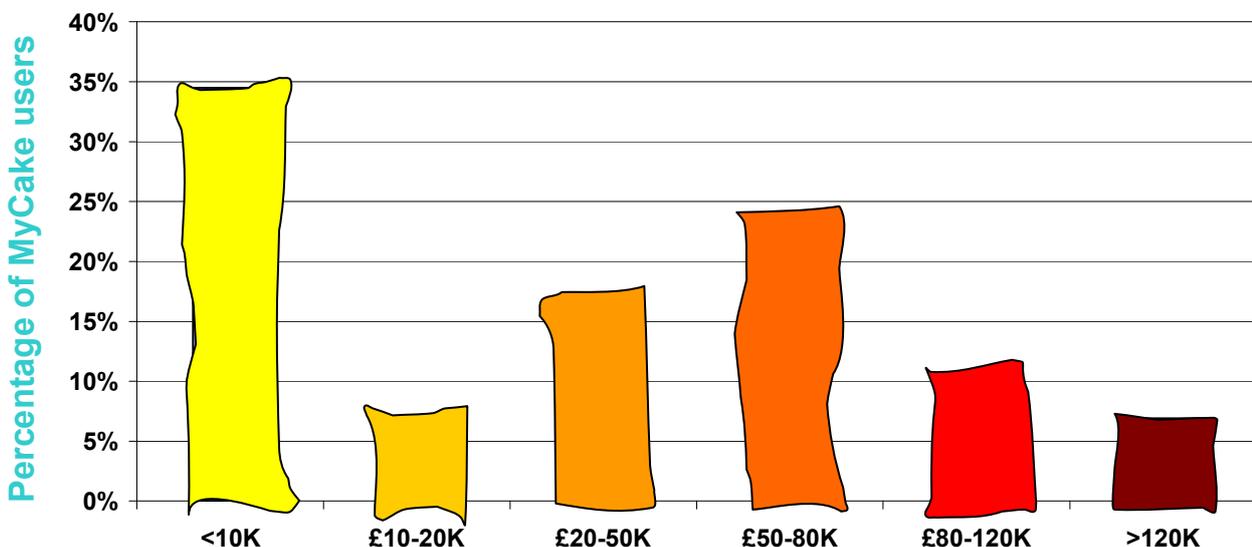
How is the world different when you've been growing for a few years?

Things start to get really interesting when we begin to interrogate the higher growth businesses and contrast their business models to those of their younger counterparts (or indeed younger selves!).

The first thing to note is that on the whole the businesses who've been using

MyCake for a number of years (typically 5-10 years) started when their turnover was below £50,000 per annum. If we look at the businesses who've developed from this point and now turn over somewhere between £100,000 and £1.5m we see a number of commonalities. Both product and service based businesses have become much more efficient in their use of raw materials so that the gross profit is at least 70% of turnover, in some cases over 85% of turnover. This is true even for those businesses working in areas such as gem based jewellery where the raw materials (gold, gems) are expensive. This is a radical departure from the position of younger businesses where, particularly in product based disciplines such as product design, jewellery, ceramics and fashion the Cost of Goods Sold (COGS) tends to range from 20-50% of turnover. Of course in part this is because turnover tends to be lower in the early years but this is still a very significant shift.

The message here is that the early years tend to contain quite a lot of experimentation as you work out how to make things and what the customer attaches value to. Once you've worked out your answers to these things you can



	Small	Medium	Large
Turnover	<£10k	£10-50k	Up to £1.5m
Average Gross Profit as a % of total income	67%	67%	78%
Average Net Profit as a % of total income	-26%	21%	45%
Average gross profit per creative	£4k	£28k	£73k
Average net profit per creative (FTE)	-£2k	£16k	£39k
% of turnover spent on rent	22.30%	16.70%	6.70%
% of turnover spent on marketing	12%	8%	2.40%

become more efficient in how you use raw materials and bring down the cost of production per piece.

The second area where older and financially successful businesses become more savvy is their spend on rent. The percentage of turnover spent on rent drops to around 4-8%. In the early years, perhaps because there is still not enough starter space available or perhaps because young businesses don't know what to spend on rent, the tendency is to over-spend on this area. You should be aiming for below 10% but some people spend as much as 30% of turnover.

These increased efficiencies in major cost areas can give more breathing space in the business as a whole for more established businesses. This perhaps explains why small businesses spend an average of 12% (but are loss making) whereas medium and larger size businesses have a sustainable spend of 2 – 10%. In reality you want to aim for at least 5% of turnover on marketing. It is quite tricky to work out what parts of the marketing spend are regular i.e. the

business has worked out that they are successful so they keep doing them vs. where a business is testing out new marketing channels or routes to market. Anecdotal evidence (as opposed to hard facts in profit and loss sheets!) suggests that in the early stages of business growth when income is growing but is still erratic the tendency is to try quite a lot of things at once in the hope of some of them delivering increased sales. The trouble with this approach is that there is also a tendency to overspend as the experience of the creative is limited and too much weight (and hope!) is put on the opinions of people trying to sell them stands in trade shows! After a couple of years of overspend and frustration at lack of profits (ok, sweeping generalisations here!) what usually happens is that the creatives who run these businesses look at the spend on activities that don't seem to be working and the lack of profit left to live on and decide to change the balance!!

The final headline from the 2014-15 data is that even when businesses grow substantially very few are employing

more staff on PAYE. Most seem to prefer to work with a steady band of freelancers, many of whom will work with the business for 5-10 years and as the business grows so the responsibilities and remuneration of the freelance team improves. In some cases this means that freelancers who work with the business in its early years shift into becoming shareholders but this

is by no means universal. However it is this dominance of a freelance based structure that means that we see an average net profit of over 40% and a leap in terms of the average net profit per creative from around £16k (across all users) to around £39k in the successful growth businesses.

In summary:

- **If your turnover is above the VAT threshold you're doing comparatively well vs. the rest of the MyCake userbase (of micro and SME creative businesses)**
- **It can take several years to make real progress in terms of growth of turnover and the overspend tends to be in production costs, rent and marketing**
- **Whilst there can be a living wage in the net profits of young businesses there's a significant leap to be made once the business gets on the growth train (it almost triples)**
- **The return on investment to both the founders and the freelance teams is an increase in the monies earned. This is not necessarily reflected in the number of FTE staff or the GVA**

If you want to move into a growth phase of your business book a one-to-one with Sarah by emailing admin@mycake.org

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