

# COCKPIT ARTS

## The Cockpit Effect 2012

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### Successful Craft Business Models

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Cockpit Arts  
[www.cockpitarts.com](http://www.cockpitarts.com)

October 2013

## Foreword

Vanessa Swann, Chief Executive, Cockpit Arts



I am delighted to present this, the fourth in a series of annual research reports into the growth and development of craft businesses at Cockpit Arts. As a social enterprise, our organisation must be able to explain and justify the value of the social, cultural and economic change we aim to bring about. Whilst the report provides evidence of continually improving performance of craft businesses and we recognise that average profits reported by designer-makers at Cockpit are almost double the national average; I would argue that Cockpit Arts is not solely addressing craft business growth in economic and fiscal terms, [the focus of this report], but as a vehicle for wider social change.

The context for Cockpit's work is a belief that craft skills are at the heart of our creative industries and cultural heritage. We need to ensure that talent is continually nurtured, so that tomorrow's designers and artisans can carry on these great traditions. We need to capitalise on local skills; deliver a low carbon footprint, and a return to bespoke, hand-made or batch produced products and locally based services is part of that approach. Most craftspeople however, struggle to think holistically about their business beyond their creativity, and consequently find it difficult to support themselves. Makers set up either as sole traders or small partnerships and experience difficulties common to many small businesses: Lack of start-up capital, limited business skills, inability to manage their business on their own, as well as other social and financial disadvantages. For example, entry routes to a craft career for those with raw talent but little or no formal education are still almost non-existent, while few professional makers are earning an income commensurate with their extensive training, skills and the long hours they work. This is where Cockpit comes in.

We believe that supporting craft businesses to become more successful and profitable is a means by which other societal problems can be addressed. Capacity building in the sector enables services to be accessed by a wider pool of potential candidates and extended to those at a disadvantage. As an example, we know that craft businesses that

employ staff reach sustainable levels of profit more quickly, but that makers are nonetheless wary of the risks involved in providing permanent employment to others. With the right support, employment of others can and has risen at Cockpit Arts, with a commensurate effect on employment opportunities in the sector. Consequently, through the Creative Employment Programme, supported using public funding by Arts Council England, we are now providing training to more craft employers based at Cockpit Arts to take on apprentices or graduate interns, all of whom will be entering the job market for the first time. Another example is the Creative Careers Programme, run in partnership with The Prince's Trust, which has been providing intensive support, including craft skill and design development, over the past three years to previously unemployed young people, as a gateway to a professional career in craft and design. To date, fourteen of the seventeen young 'NEETS' on this programme have gained employment or self-employment, and following the year 1 pilot, years 2 and 3 resulted in 100% success rate in self-employment after two years of support. Now we are aiming [and able] to increase the number of participants on the Creative Careers programme in line with our social mission. We would argue that without capacity building and growth of craft businesses based at Cockpit or elsewhere, such social change will not be possible.

For the first time the report also highlights the range of types of craft businesses at Cockpit Arts, from artist maker to designer-maker, from batch producer to scalable craft businesses, with more information on their particular business model. In the future we plan to do more to contextualise the impact of business incubation, including the value derived from a diverse mix of designer-makers operating within a creative community, as well as the value of supporting particular craft skills in relation to revival of UK industries. In the meantime, it only remains for me to thank the report author, Ellen O'Hara, Head of Business Development, for her excellent work in designing, delivering and analysing the business development strand of the Cockpit business incubator, as well as all other members of the team, without whom the positive developments would not have been possible: Josie Ballin, Sally Dodson, Hugo Godfrey, Imogen Gray, Beckie Kingman, Lucy Kyle and Adrian Lee.



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## Executive Summary

This report references on-going research undertaken by Cockpit Arts, with a focus on business data collected from Cockpit Arts studio holders in 2012. Evidence from this sample of 137 craft businesses is compared against benchmark data held by Cockpit Arts collated between 2005 and 2011 and national data on craft businesses in the UK to help identify general trends.

The results show that, for the seventh year running since Cockpit Arts began collecting data, businesses here continue to break the mould, reporting growth and development both financially and creatively:

- Nearly three quarters (74%) reported growth in turnover in 2012 compared with 70% in 2011 and 65% in 2010.
- Two thirds (62%) of Cockpit businesses reported an increase in profits in 2012 compared with 66% in 2011 and 51% in 2010.
- Growth rates have remained healthy with turnover increasing by an average of 40% and profit by an average of 26% since 2011.
- Business confidence at Cockpit Arts is high with 82% of businesses predicting an increase in turnover, estimated at an average increase of 40%. 62% of makers are predicting an increase in profits at an estimated average increase of 29%.
- Furthermore, average turnover at Cockpit is 49% higher than the national average at £35,089 compared with £23,485, with a high of over £380,000.
- Similarly average profits reported by designer-makers at Cockpit are almost double the national average at £12,147 in 2012 compared with £6,231.
- The average year on year growth in turnover and profit since 2005, taking into account inflation<sup>1</sup>, is 20% for turnover and 28% for profits.

Growth is being achieved through the diversification of markets and income streams, by reaching new online, high value and overseas markets, as well as streamlining operations and investing time in creative and productive development.

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<sup>1</sup> <http://www.bankofengland.co.uk/education/Pages/inflation/calculator/index1.aspx>

- On average, 85% of income is derived from sale of craft objects, compared with 83% in 2011.
- However some significant changes in sources of income have been reported:
  - income generated from wholesale orders and sale or return sales dropped from an average of 29% to just 18%
  - income derived from retail crafts fairs and shows fell from 23% to an average of just 6%, while income from commissions rose from 13% to 29%
  - income from online sales has also increased from an average of 8% to 22%
  - income from Cockpit Arts Open Studios remained constant for the third year running at an average of 10%
- 59% of respondents from Cockpit Arts reported having another source of income in addition to sales of craft products.
- 46% work on their craft practice part time, which correlates with the increase in the percentage of businesses that have been trading for five years or less.
- Leading the field in terms of overall financial performance are jewellery, printed textiles and silversmithing, as in previous years.
- The proportion of businesses at Cockpit Arts exporting has remained high at 56% compared to just 30% of makers nationally.
- Use of PAYE employees remains low but has increased to 8%.
- Outsourcing is common and is shown to have a positive impact on financial performance. In 2012, 45% of business outsourced manufacture and 38% contracted out other business functions such as sales and marketing, finance and administration.
- Use of digital technology in business has increased specifically with applications in financial planning (50%), e-marketing (53%) and e-commerce (33%).

Qualitative approaches show that craft business at Cockpit Arts will move through the incubation journey in different ways, influenced by many factors, including the business model that has been adopted. We have identified 7 key craft business models represented among the Cockpit Arts community and the can show that it takes between 3 and 10 years to reach business maturity.

## 1.0 Introduction

This report references on-going research undertaken by Cockpit Arts, with a focus on business data collected from Cockpit Arts studio holders in 2012.

### 1.1 Report structure

The report outlines the aims and context of our research, followed by a summary of the key findings, headlined by the fact that craft businesses at Cockpit Arts continue to evidence growth, despite a tough economic climate. Key growth trends are highlighted and the report continues by describing seven craft business models, the specific support needs that these businesses tend to have and how long on average it takes to reach business maturity. Details of the research methodology employed and some of its limitations are listed in the appendix along with supporting data and references.

### 1.2 Aims and context

Cockpit Arts is a social enterprise and the UK's only creative-business incubator for designer-makers, catering for a range of craft disciplines. At Cockpit Arts, incubation comprises a unique combination of affordable, managed studios and office services, onsite one to one business development coaching, skills development workshops, low interest loans, twice yearly Open Studios, and other showcasing and selling opportunities.

The research undertaken by Cockpit Arts reflects our aim to raise aspirations for improved profitability and creative success amongst the designer-maker community. It arises from a desire to better understand the business models and strategies of micro craft businesses, and the role that incubation can play in craft sector development. Our research was initially designed for internal purposes, and is based on key performance indicators collated via a business review process. The research activity began in 2005, is ongoing and consists of three key lines of enquiry:

1. To analyse the growth trends, drivers and challenges of studio holders at Cockpit Arts.

2. To provide an assessment of the impact that incubation has on business activity and performance among studio holders at Cockpit Arts, measured against external sources of data on craft businesses and other incubator based businesses, where available.
3. To identify the business models and incubation services employed by the best performing businesses. This process helps to compare the impact of incubation between businesses at Cockpit Arts that engage in different aspects of the incubation package.



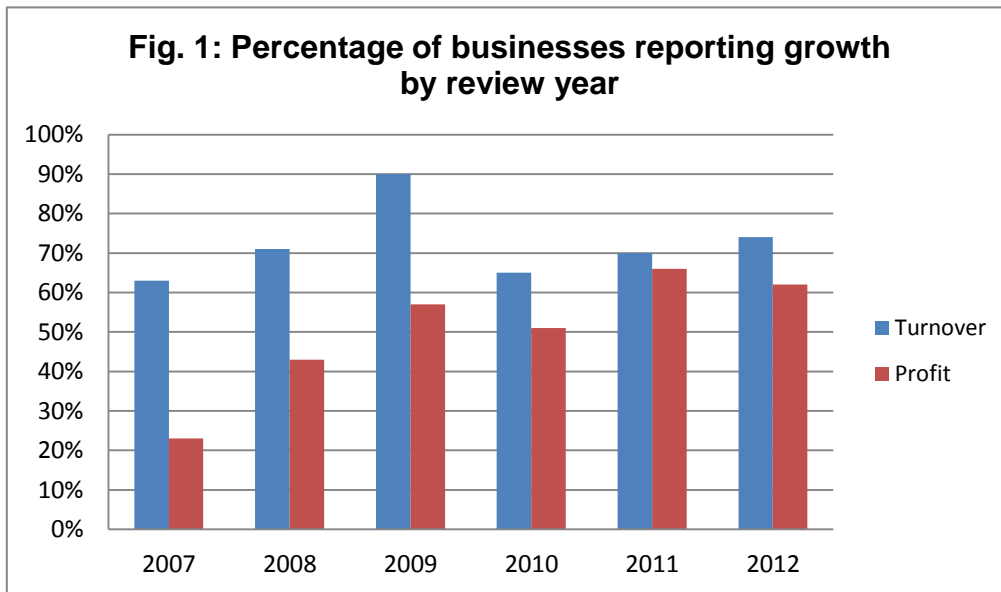


## 2.0 Key findings and trends

This section highlights key findings and trends for the 2012 sample of businesses at Cockpit in comparison with previous years and national statistics, where available.

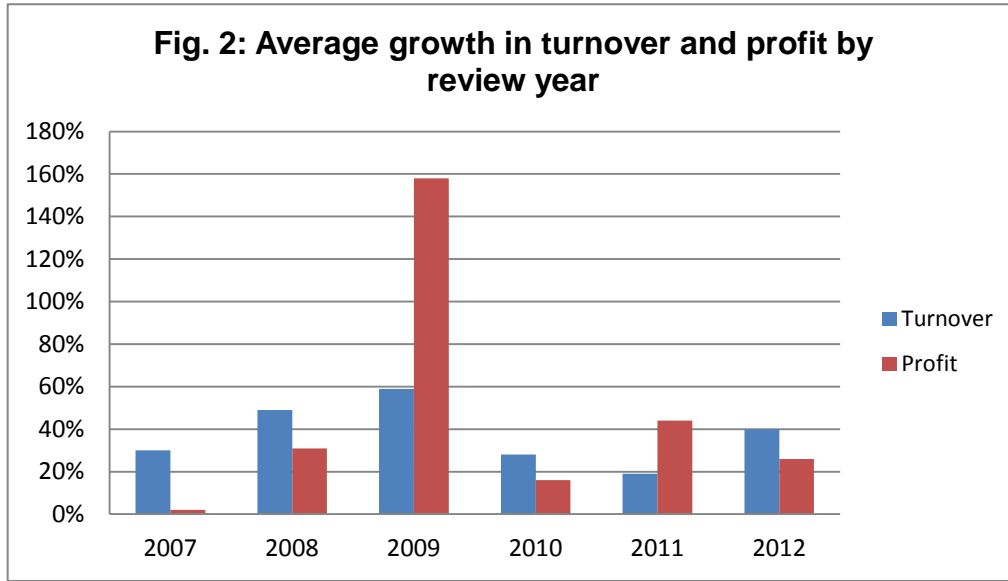
### 2.1 Growth

The analysis reveals that growth, in terms of financial change, among businesses at Cockpit Arts has continued to improve year on year since the incubation model was introduced in 2005. An increasing number of Cockpit Arts' businesses are experiencing growth with nearly three quarters (74%) reporting growth in turnover in 2012 compared with 70% in 2011 and 65% in 2010. Two thirds (62 %) of Cockpit businesses reported an increase in profits in 2012 compared with 66% in 2011 and 51% in 2010.



Average turnover continued to grow in 2012 at an average rate of 40% compared with just 19% in 2011 and 28% in 2010. Average growth rates for profits fell to 26% in 2012 compared with 44% the previous year. The average year on year growth in turnover and profit since 2005, taking into account inflation<sup>2</sup>, is 20% for turnover and 28% for profits.

<sup>2</sup> <http://www.bankofengland.co.uk/education/Pages/inflation/calculator/index1.aspx>



Business confidence at Cockpit Arts is high with 82% of businesses predicting an increase in turnover, estimated at an average increase of 40%. 62% of makers are predicting an increase in profits at an estimated average increase of 29%.

## 2.2 Turnover

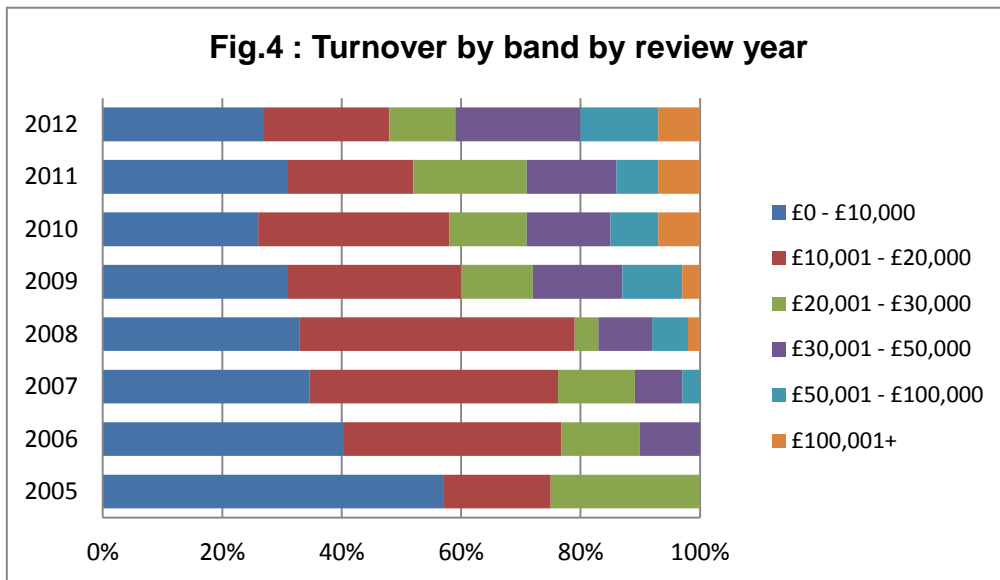
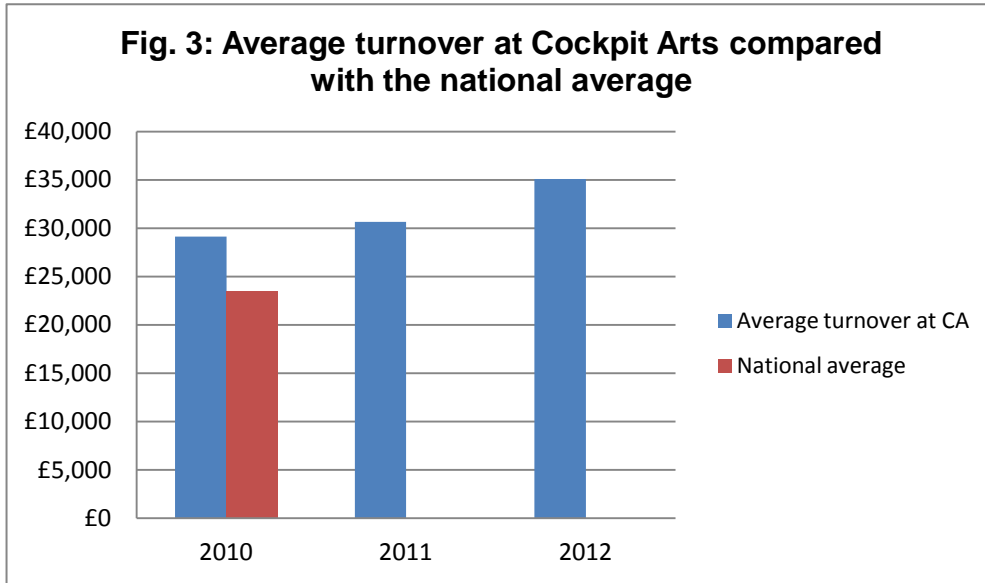
Average turnover stood at £35,089 in 2012 compared with £30,640 in 2011. Both figures are significantly higher than the national average of £23,485<sup>3</sup>. Turnover of Cockpit businesses reported in 2012 ranged from zero for some start-up businesses to £382,000, compared to a high of £246,000 the previous year.

Figure 4 shows that an increasing number of businesses are reporting income of between £20,001 and £50,000 as well as £50,001+ and a decreasing number report turnover of less than £20,000. 80% of makers nationally reported gross income of £20,000 or less<sup>4</sup> in 2010 compared to 48% of the Cockpit sample in 2012. Nationally, just 4% of businesses generate a turnover of more than the VAT threshold<sup>5</sup> (currently £79,000) compared with 9% of businesses at Cockpit Arts in 2012.

<sup>3</sup> Crafts Council, Creative Scotland, Arts Council of Wales, Craft Northern Ireland (2012), *Craft in an Age of Change*, London: Crafts Council. Pg 26.

<sup>4</sup> Crafts Council, Creative Scotland, Arts Council of Wales, Craft Northern Ireland (2012), *Craft in an Age of Change*, London: Crafts Council. Pg. 26.

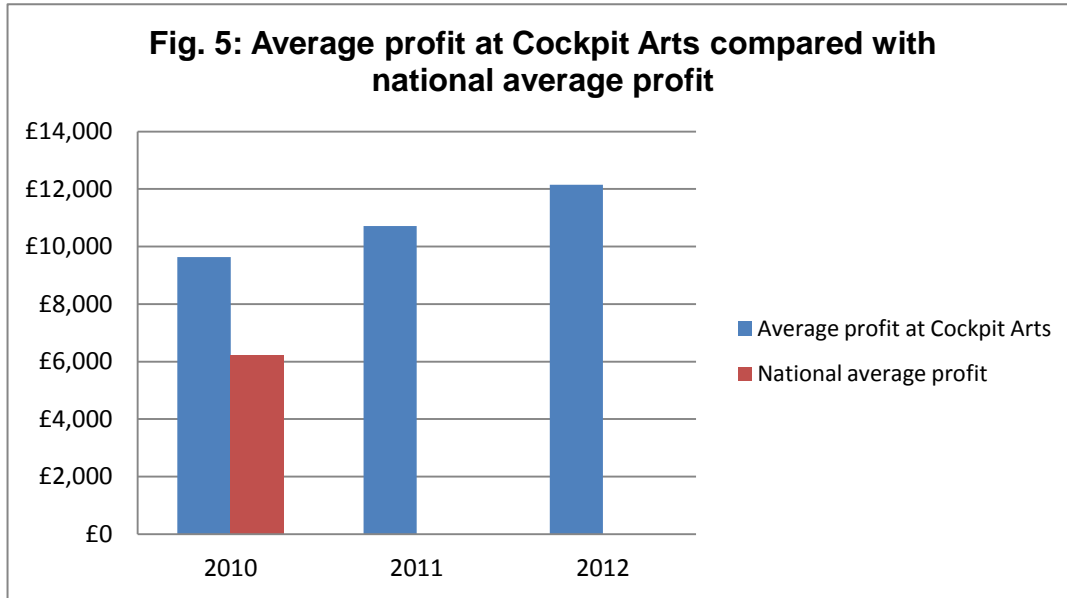
<sup>5</sup> *Craft in an Age of Change*, Creative Scotland, Arts Council of Wales, Craft Northern Ireland (2012), *Craft in an Age of Change*, London: Crafts Council. Pg. 17.



### 2.3 Profit

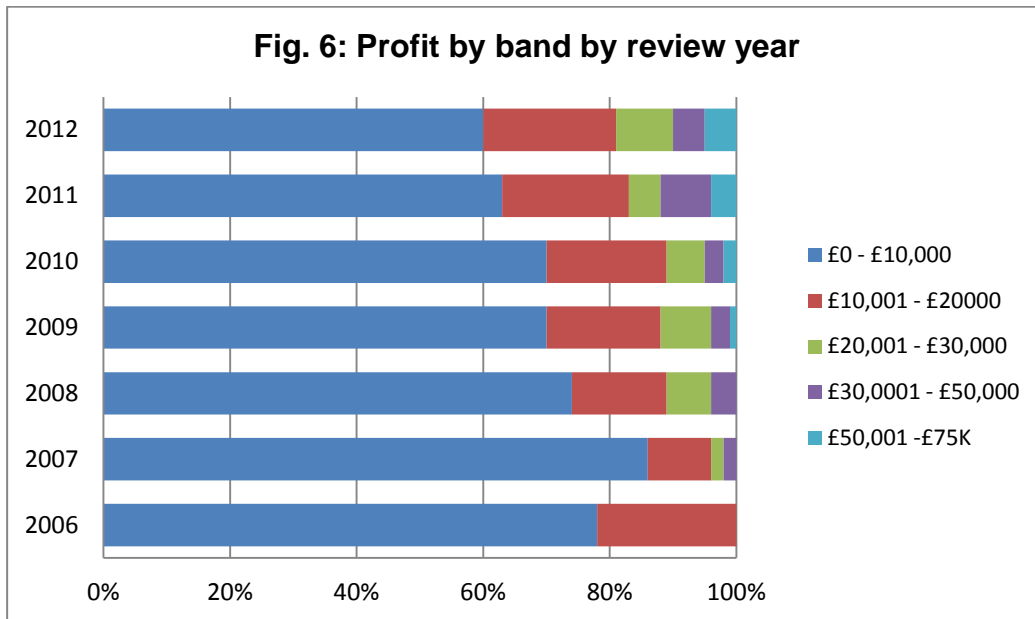
Average profits have also been increasing over time and stood at £9,524 in 2010 and £10,714 in 2011 increasing to £12,147 in 2012. Again these are higher than the reported national average of £6,231<sup>6</sup>. In 2012 reported losses / profits ranged from losses of -£7,100 to net profits of £132k.

<sup>6</sup> Crafts Council, Creative Scotland, Arts Council of Wales, Craft Northern Ireland (2012), *Craft in an Age of Change*, London: Crafts Council. Pg. 29.



Average net margins have increased to a high of 30% up from 19% in 2011 and 25% in 2009.

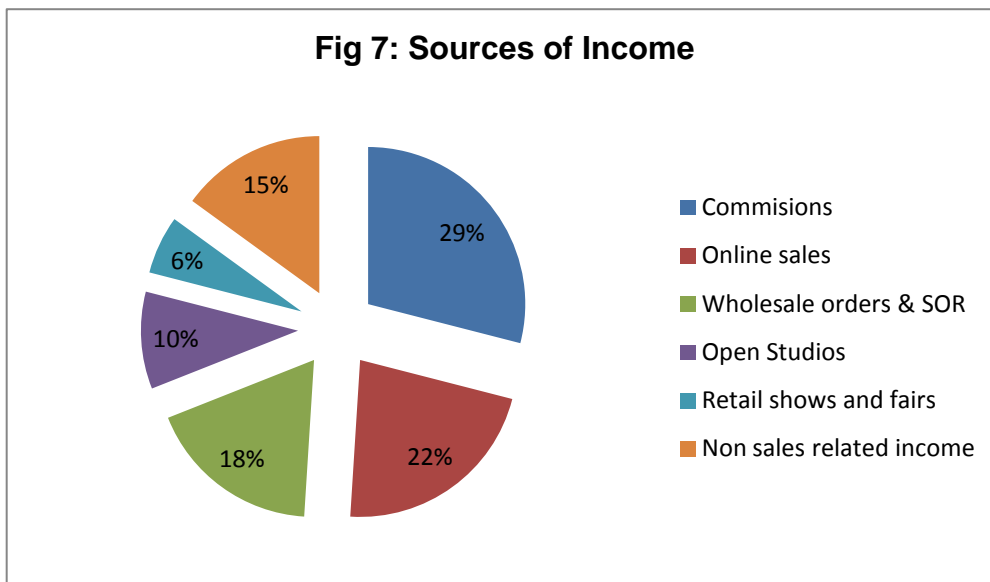
Figure 6 shows that the percentage of businesses reporting profits of £10,000 and less has fallen for the fifth year running while an increasing number of businesses are reporting profits of £20,001 and over.



### 2.4 Sources of income

As in previous years, makers at Cockpit Arts are defying the downturn by diversifying their income streams to spread risk, investing time in creative and productive development, reaching new online, high value and overseas markets and streamlining operations.

On average, 85% of income is derived from sale of craft objects, compared with 83% in 2011. Yet some significant changes in sources of income have been reported: Income generated from wholesale orders and sale or return sales dropped from an average of 29% to just 18%. Income derived from retail crafts fairs and shows fell from 23% to an average of just 6%. Conversely, income from commissions rose from 13% to 29%. Income from online sales has also increased from an average of 8% to 22% while income from Open Studios remained constant for the third year running at an average of 10%.



59% of respondents from Cockpit reported having another source of income in addition to sales of craft products, compared with 68% in the previous year. Of these 79% derive income from a craft related skill such as teaching, freelancing making or designing.

In 2011, 38% reported to be working on their craft practice part time which increased to 46% in 2012, which reflects the proportion of businesses that have been trading for four years or less. On average 15% of income is derived from non-sales activities.

## 2.5 Expenditure

In 2011 direct costs such as materials, production outworkers and packaging represented a larger proportion of turnover, up on average to 41% in 2011 from 27% in 2010 and 29% in 2009. This fluctuation resulted from a combination of increased commodity prices which had not been reflected in increased prices, as well as increases in the volume of stock held by some businesses as a strategy for responding to wholesale orders more effectively. In 2012, this had returned to an average 29%.

Other costs such as studio and related costs, marketing and sales costs and other indirect costs have remained largely unchanged since 2009.

**Table 1: Average costs in relation to turnover over time**

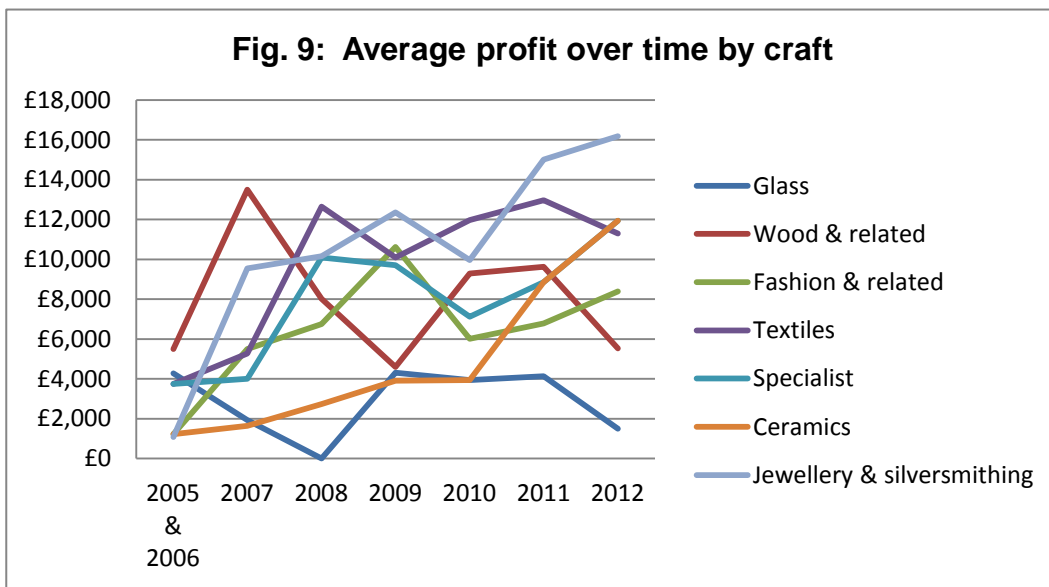
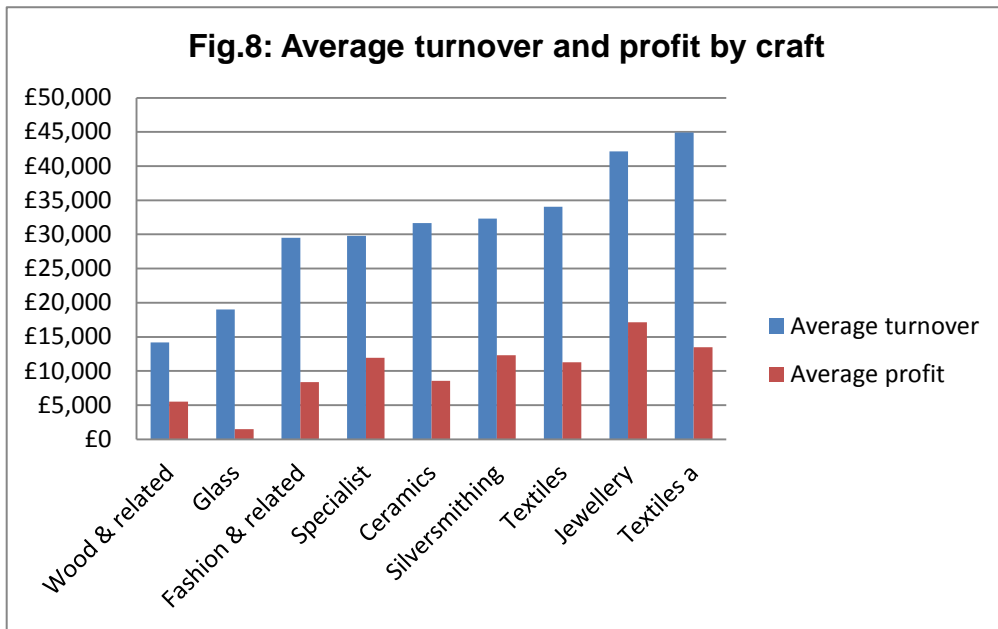
| <b>Average costs in relation to turnover</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|----------------------------------------------|-------------|-------------|-------------|-------------|
| Direct costs                                 | 29%         | 27%         | 41%         | 29%         |
| Studio and related costs                     | 24%         | 22%         | 20%         | 21%         |
| Marketing & sales costs                      | 12%         | 12%         | 10%         | 10%         |
| Other indirect costs                         | 10%         | 12%         | 10%         | 10%         |
| Net margins                                  | 25%         | 27%         | 19%         | 30%         |

## 2.6 Business profile

The research findings have identified that profile variables such as craft discipline, age of business and work rate all affect financial performance.

As in previous years, ceramic businesses have experienced the highest growth in average turnover since 2005 and the second highest growth in profit after jewellery and silversmithing. Unlike previous years, average levels of turnover and profit among ceramics businesses has improved at a higher rate than other craft disciplines. This is a result of a number of businesses in the sample successfully overcoming growth challenges by either successfully scaling up, licensing designs to manufacture or, at the other end of the spectrum, successfully developing a fine art business model. Leading the field in terms of overall financial performance are jewellery and silversmithing businesses which

demonstrate the highest growth in average profit and actual level of profit. Wood and related businesses, and glass businesses, have shown consistently lower levels of average turnover and profit and growth rates. Specialist craft businesses, which include musical instruments makers and paper related makers, have demonstrated the most significant growth in average turnover over the years.



Five years in business continues to be the mode for the best performers and those makers working five days or more, on average, report higher turnover and profit.

Those businesses working part time (four days a week and less) reported an average turnover of £16,983 and average profit of £5,552, while those working full time on their practice reported significantly higher average turnover and profit at £44,872 and £15,770 respectively. The average turnover and profit for a full time maker at Cockpit Arts who has been in business for at least five years was £60,975 and £22,080 respectively.

## 2.7 Strategic planning

The percentage of businesses at Cockpit with strategic business plans remained static at 70%, having increased from 63% in 2010, 61% in 2009 and just 13% in 2007. Occurrence of marketing plans are shown to have the greatest correlation with turnover particularly for emerging businesses, whereas more strategic business plans are shown to correlate with higher profits in the longer term.

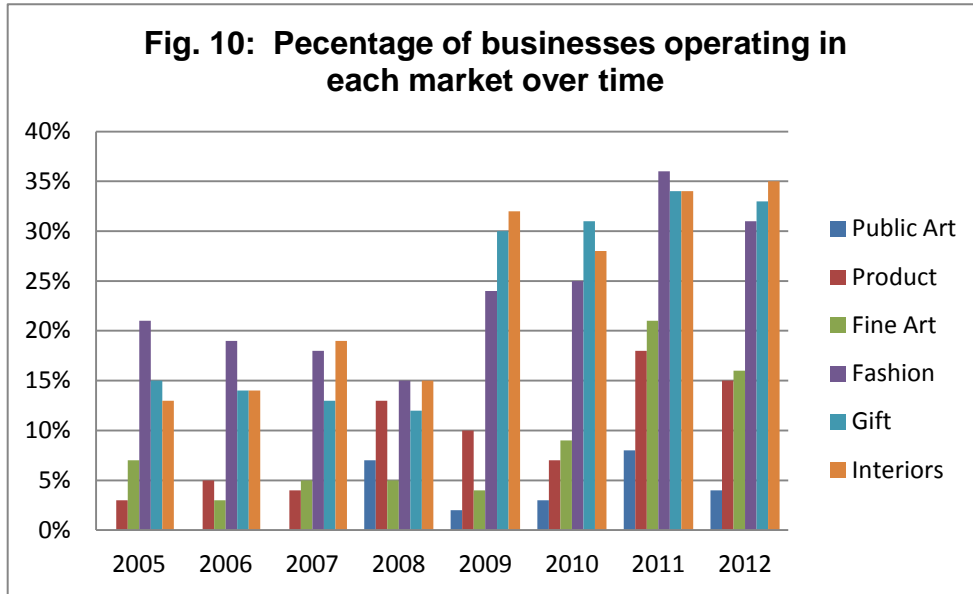
## 2.8 Product innovation and development

Creative and product development continues to bear a strong correlation to improved financial performance. In 2012, 42% reported to have developed new products or services in the last twelve months compared with 55% the previous year. The average proportion of time spent on design development activities was similar to previous years at 14% and regression analysis suggests that those makers who spend more time on design development generate higher turnover.

## 2.9 Markets

The percentage of businesses that target the contemporary craft market has remained constant since 2005 at an average of 74%. The proportion of businesses that operate in interiors, gift and fashion markets has been significantly higher since 2008 and regression analysis confirms that those businesses operating in more than one market generate higher levels of turnover and profit. The exception to this rule are precious metal jewellers that target only the contemporary craft market and are among some of the best performers in financial terms.

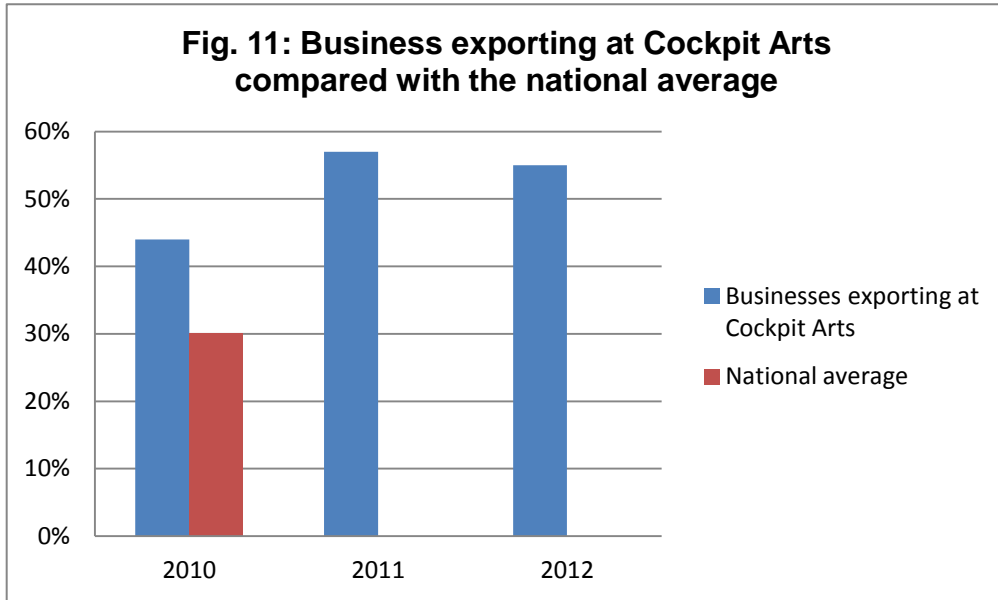




The proportion of businesses at Cockpit Arts exporting has been consistently high, ranging from 36% to 44% between 2005 and 2010. In 2011, this rose again to 57% compared with just 30% of makers nationally<sup>7</sup> and remained steady at 55% in 2012. The two most predominant export destinations are the USA with 46% of exporters selling there, followed by France at 34%, which had been the most predominant in previous years. Germany overtook Japan as the third most predominant export destination with 26% of exporters selling there, and the number of exporters selling to Japan falling by almost half from 33% to just 17%.

As in previous years, market diversification, including exporting, is shown to contribute to both level of turnover and turnover growth among the Cockpit sample. Time series analysis confirms that exporting has been significant in explaining financial performance since 2005, with exporting businesses reporting higher average turnover and higher profit growth than those that do not export.

<sup>7</sup> Crafts Council, Creative Scotland, Arts Council of Wales, Craft Northern Ireland (2012), *Craft in an Age of Change*, London: Crafts Council. Pg. 41.



### 2.10 Employment and outsourcing

Use of PAYE employees has increased from 2% in 2009 to 4% in 2010 and 8% in 2012. This correlates with national data<sup>8</sup> which states that 82% of craft businesses employ less than five people.

Outsourcing manufacture on a contractual basis stood at 49% in 2009, an increase from 36% in 2007, down slightly to 47% in 2011 and comparable with 45% in 2012.

Outsourcing manufacture was also shown to be one of the most consistently significant factors in explaining level of turnover and profit over time for businesses at Cockpit.

In 2010, respondents were asked for the first time to comment on whether they outsourced other business functions such as sales and marketing, finance and administration. In 2010 23% contracted out other services, rising to 25% in 2011 and 38% in 2012.

37% reported to offer work placement opportunities to students in 2010 which rose to 55%, dropping back down to 36% in 2012.

<sup>8</sup> Creative & Cultural Skills (2009), *Craft: Impact and Footprint*, London: Creative & Cultural Skills.

Those makers who outsource aspects of production tend to report higher levels of turnover and profit. Qualitative evidence reveals that outsourcing production leads to increased production capacity, efficiency and simultaneously reduces lead times. This not only improves productivity, but allows the businesses to respond to increases in demand more effectively, and for the business owner to spend time on the added value aspects of the business such as design development.

## 2.11 Use of digital technology

Use of digital technology in business has increased across the board in the last three years. Most notably use for financial management and planning has increased from 28% in 2009 to 50% in 2012. Occurrence of e-marketing has increased from 39% in 2009 to 53% in 2012 and e-commerce from 22% in 2009 to 33% in 2012. Use of digital technology for design and manufacture is less common and stands at 15% and includes the development and / or use of intelligent materials, rapid prototyping, laser cutting and digital printing.



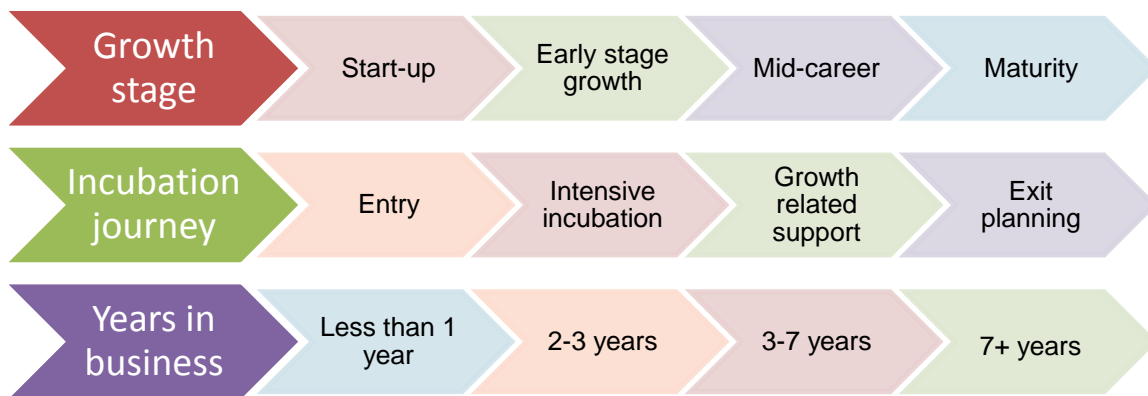
### 3.0 Successful craft business models

This section of the report explains the typical incubation journey of a business based at Cockpit Arts and how this may vary according to the business model.

#### 3.1 The incubation journey

A key element of the incubation process at Cockpit Arts is to work with each individual designer-maker to design a business model that fulfils their creative aspirations whilst meeting their financial needs and social aims. Our previous research demonstrates that the best performers, in financial terms, access different combinations of support services that meet their needs at the different stages of business growth. The diagram below shows the typical phases of business growth and maps this against a typical business incubation journey and years in business for each stage.

**Fig. 12: Typical growth stage, incubation journey and average years in business for each**



#### 3.2 Key craft business models

Qualitative approaches show that craft business at Cockpit Arts will move through this journey in different ways, influenced by some of the factors already mentioned such as the vision and values of the business owner, the nature of and market for the work and the business model that has been adopted. We have identified 7 key craft business models

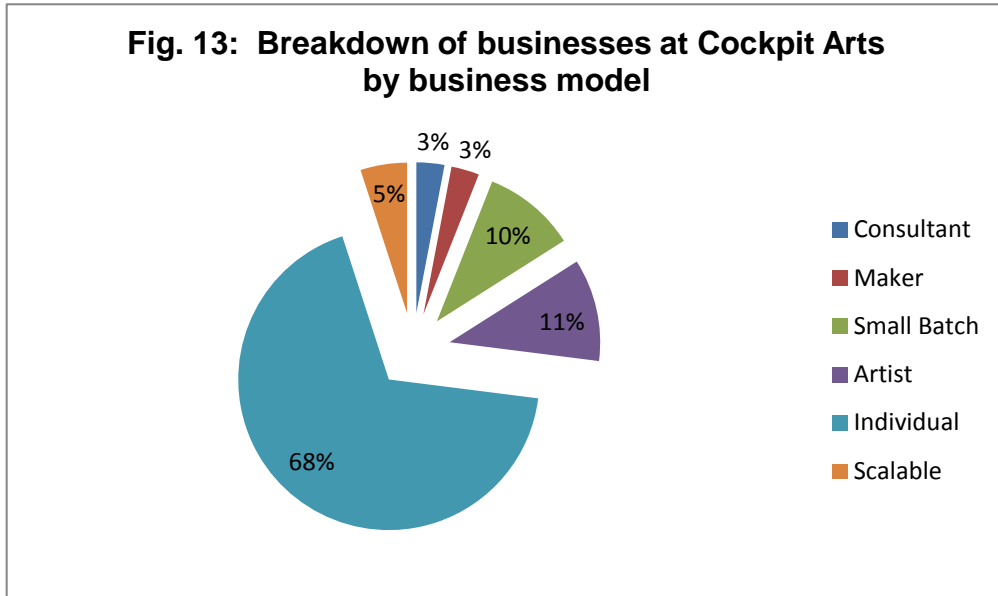
represented among the Cockpit Arts community and the table below provides a summary of each one. In each case the distinguishing factor is how the business creates and adds value.

**Table 2: Seven key craft business models**

| <b>Business model</b>              | <b>Value creation</b>                                                                                                                                                        |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Educator                           | Through lecturing, teaching, guest speaking and mentoring in a specific field of expertise.                                                                                  |
| Craft & design consultant          | Through the use of making skills and materials knowledge in the provision of free lance design services and / or consultancy.                                                |
| Maker service provider             | Through the highly skilled production of work to the specification of the client. This group includes restorers, crafts trades people, outworkers and small batch producers. |
| Artist maker                       | Through the creation of one off and limited edition works with a leaning towards the conceptual.                                                                             |
| Individual designer-maker          | Through the design and highly skilled production of labour intensive, one off, limited editions and collections of functional and non functional craft objects.              |
| Small batch producer (of own work) | Through the design, production, (distribution) and sale of products made in small batches.                                                                                   |
| Scalable craft business            | Through the application of design to products that are manufactured on a relatively large scale.                                                                             |

A proportion of makers at Cockpit have developed a practice that comprises more than one of these approaches to generating income and making a profit. However one approach will tend to be dominant and Fig.13 shows the current break down of businesses at Cockpit by business model.

By examining individual case histories for artist makers, individual designer-makers, small batch producers (of own work) and scalable businesses in particular, it is possible to



identify what some of the common traits are among the best performing businesses in each category. This includes how the business tends to generate income and profit, what their specific business development support needs are and how long, on average, it takes to reach business ‘maturity’.

### 3.3 The artist maker

An artist maker will tend to generate income through the creation and sale of one off and limited works which tend to have a leaning towards the conceptual. As with each of the business model categories, artist makers at Cockpit Arts span all craft disciplines. The more successful businesses in this category will tend to contract or employ highly skilled assistants as the business grows to support the production of work.

Distribution and sale of works occurs predominantly through one or two key fine or contemporary art galleries or dealers, contemporary object and fine art shows (via a gallery), supported by a lesser degree by sale of stock at Open Studios, other targeted direct selling events and online channels. Private commissions generated via the representing gallery or direct via the studio and public commissions will also tend to feature. Marketing costs in relation to turnover will tend to be lower than average for artist

makers. The more successful businesses will have both a national and international profile, and have work in both public and private collections. Examples include Katharine Morling, an award-winning artist producing figurative one off pieces and limited editions in ceramics.

Specific support needs will tend to include support with securing gallery representation, making applications for grant funding, writing submissions for commissions and exhibition opportunities, general profile raising and employment related issues where relevant. The estimated average time to reach business maturity for an artist is 10 years.



*“My time here has seen my practice grow and change. It is a very encouraging and supportive atmosphere in which to make brave choices and become more business savvy, which in the end gives more time to be creative.” Katharine Morling*

### 3.3 The individual designer-maker

The individual designer-maker is the most predominant business model at Cockpit Arts making up 68% of the total. Income and profit is generated through the design and highly skilled production of one off, limited editions, and collections of functional and non functional craft objects. Sales of stock are likely to be supported by an element of working to commission, but with the design process led by the designer-maker.

As with the artist-maker, the more successful businesses in this category will tend to contract making assistants to support the production of work at peak times.

Isolating the best performers in this category reveals that the vast majority are jewellers, silversmiths or accessory producers (milliners, shoemakers, fashion accessories). They have all successfully accessed high value niche markets in the craft and / or fashion sectors. These markets tend to be reached through niche direct selling events such as Goldsmiths' Fair. Income generated through private commissions tends to feature prominently alongside wholesale orders and direct retail sales, ensuring that average net margins among the best performers are higher than average at 40%. Marketing spend in relation to turnover will tend to be slightly higher than the average, while studio related costs will tend to be lower than average. Examples of businesses in this group include Jessica Poole, Jacqueline Cullen, Jo Hayes Ward and Jane Adam.

Specific support needs include niche marketing, positioning and branding approaches, and managing commissions effectively. As design and making skills improve with time, reputation, profile and value of the final works increase.

Estimated average time to reach business maturity for an individual designer maker is 7 years.



*“I have received invaluable one-to-one business support from Cockpit, which has enabled me to examine my business and focus on developing and growing in new directions.” Jo Hayes Ward.*

### 3.5 The small batch producer

10% of the businesses at Cockpit can be described as small batch producers, producing their own work from the studio. As volumes increase, production is either outsourced on a small scale to other highly skilled makers, or production assistants are employed in the studio.



The best performers in this group tend to be producing work for the gift, interiors and / or fashion accessories markets, tend to report higher than average levels of wholesale activity and higher than average online sales.

These businesses will tend to benefit from specialist support in people and production management, export, maximising online presence and may also require access to finance.

An example of a successful business in this category is ceramics business sjm\* which, as a result of support from manufacture specialist and coach Nigel Rust via Cockpit Arts, has become more efficient reporting improvements in productivity by as much as a third (33%).

Small batch producers will take between 3 and 7 years to reach maturity and have the potential to continue growing once they have exited the incubator.



*“We are better able to respond to high customer demand during busy periods such as the run-up to Christmas as a result of the support we have received at Cockpit Arts...” Sarah J Miller.*

### 3.6 The scalable craft business

5% of the businesses at Cockpit can be described as scalable retail businesses where design development and sampling / prototyping will tend to take place in the studio with the majority of production being outsourced to larger scale units. These businesses are most likely to have PAYE staff to manage the different aspects of the business from production, to marketing and sales, and finance.

Income from wholesale orders and online sales in relation to turnover will both tend to be higher than average and may also be supported by an element of license fee income.

Although actual costs across the board will tend to be higher for these businesses, the scale they are able to achieve ensures that net profit margins remain relatively high at an average of 32%. The majority of businesses in this category are printed textiles business producing for the gift and interiors market, with examples including Lush Designs and Thornback & Peel.

These businesses will tend to benefit from specialist support in people, production and premises management, export, maximising online presence and may also require access to finance. Due to a greater potential for licensing and brand development, these businesses are also most likely to require specialist legal advice in intellectual property.

Estimated time to reach maturity is 5 years, although, as with small batch producers, these more scalable businesses have the potential to continue growing significantly beyond this.



*'... Cockpit has supported us at every stage. The loan scheme in particular has provided us with the means and motivation to grow our business and build our brand'. Thornback & Peel.*

## 4.0 Conclusions

The research provides evidence of the continuously improving financial performance of craft businesses at Cockpit Arts despite tough retail conditions. Specifically makers at Cockpit are reporting higher growth, higher average turnover, higher average profit and higher net profit margins than in previous years. The evidence highlights a number of key drivers contributing to this growth including strategic planning, creative and product innovation, income and market diversification including e-commerce, a move to high value markets such as high end fashion, export and outsourcing.

While reductions in average income generated from wholesale orders, SOR sales and retail fairs represents a challenge, the evidence suggests these challenges are being overcome. The more successful businesses at Cockpit are accessing new high value markets, taking advantage of the opportunities presented by a growing appetite for commissioning, and growing their online sales.

Our previous research shows that there is no set package of support that is guaranteed to lead to improved financial performance. One size does not fit all. Studying case histories shows that business survival and growth depends on the capacity of the craft business owner-manager to develop strong creative and managerial competencies in order that they can exploit opportunities and overcome challenges, in a way that is relevant to them and their practice. Section 3 of the report demonstrates that the business model that a maker adopts will be a significant factor in determining the business development supports needs of that business and how long it is likely to take to become sustainable and reach maturity.

Our findings show that for individual designer-makers, the most predominant business model among the sample, typical time to reach maturity is between 5 and 7 years. These results will continue to influence how we develop our incubator model and the specific support strands that meet the needs of different craft business models at Cockpit Arts.

## APPENDIX

### Methodology

The scope of the research is largely defined by the scope of the business review, which explores financial performance, business model and business process (managerial, sales and marketing, and operational). In addition, respondents answer questions relating to business development progress, contributing factors, and future support needs. Business review evidence for 2012 is drawn from a total sample of 137 businesses. Respondents span a range of years in business and craft disciplines including jewellery, ceramics, glass, fashion and accessories, silversmithing, wood and book art. See Appendix for full sample breakdown.

Data is also drawn from individual designer-maker records which show which incubation products and services each studio holder has benefitted from over time e.g. participation in Open Studios, one to one coaching etc.

Quantitative analysis was conducted based on the 2012 results to identify general trends providing descriptive statistics on a number of key performance indicators. Comparative analysis was then conducted with two key sources:

- data provided by the Cockpit Arts studio sample between 2005 and 2011, with a focus on 2011.
- data on craft businesses in the UK published in *Craft in an Age of Change*, Crafts Council, Creative Scotland, Arts Council of Wales, Craft Northern Ireland, 2012.

Regression analysis was used to help explain which variables are most likely to contribute significantly to turnover and profit and how much turnover or profit can be attributed to each variable. The Ordinary Least Squares (OLS) method of modeling was used to help describe the relationship between a dependent and an independent variable, such as turnover and craft discipline, and seeks to explain how significant craft discipline is in explaining differences in turnover among the sample. Time series analysis was also used to test the significance of different variables over time.

Comparative data on the performance of businesses within other incubators is not readily available. While many incubators monitor the development of their business to fulfill

funding requirements, this data is not in the public domain. UKBI, the national professional body for the business incubation industry, recognises the need for a national monitoring study to provide tracking and benchmark data on incubator firms in their 2009 report, UK Incubators, Identifying Better Practice. This is echoed by NESTA in their 2008 policy briefing, *Business incubation in challenging times*, which concludes that there is no academic consensus on the best means to assess business incubation, worsened by the relative weakness of statistics on the growth trajectories of firms within the incubator environment.

Face-to-face interviews were conducted with 20 Cockpit Arts studio holders to provide further insight into particular lines of enquiry. Together with information gathered from the 670 one-to-one coaching sessions delivered during 2011 and 2012 to individual studio holders, the qualitative information was analysed using elements of grounded theory to contextualise the data and help inform the overall conclusions.

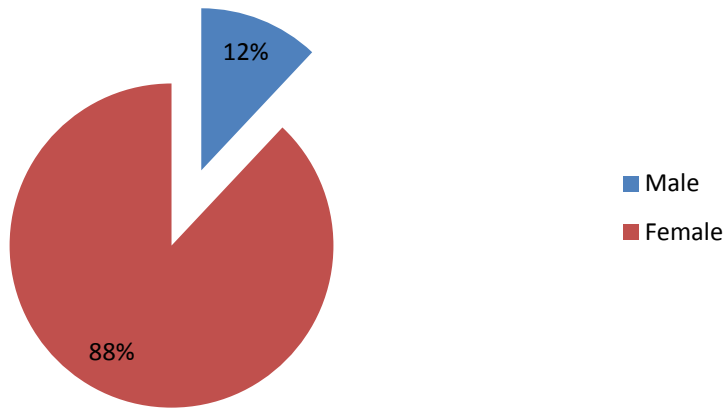


Data sample

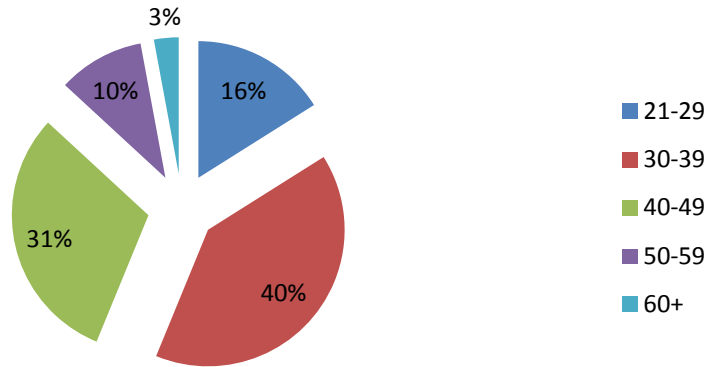
Table 3: No. of business reviews submitted per review year

| Year  | No. of business reviews |
|-------|-------------------------|
| 2005  | 51                      |
| 2006  | 43                      |
| 2007  | 65                      |
| 2008  | 54                      |
| 2009  | 92                      |
| 2010  | 110                     |
| 2011  | 110                     |
| 2012  | 137                     |
| Total | 636                     |

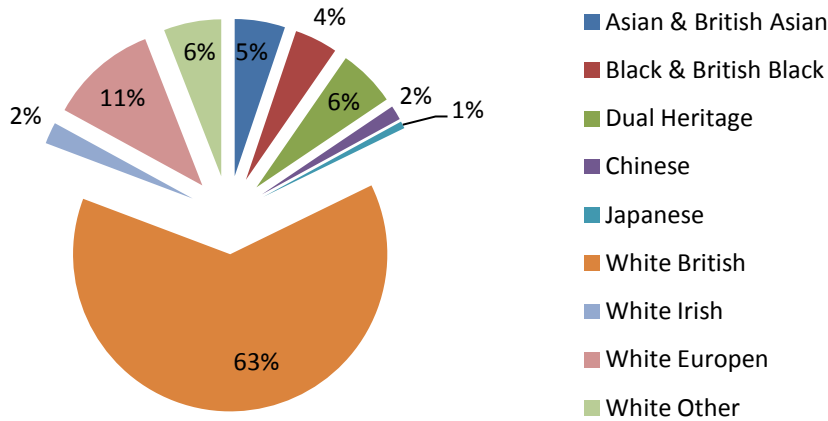
Fig. 14: Cockpit Arts sample 2012 by gender



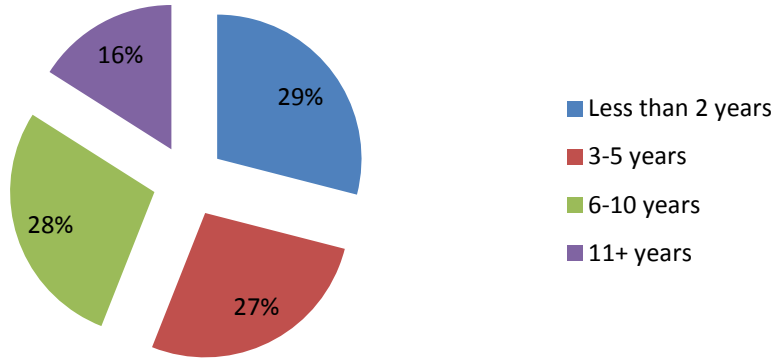
**Fig. 15: Cockpit Arts sample 2012 by age**



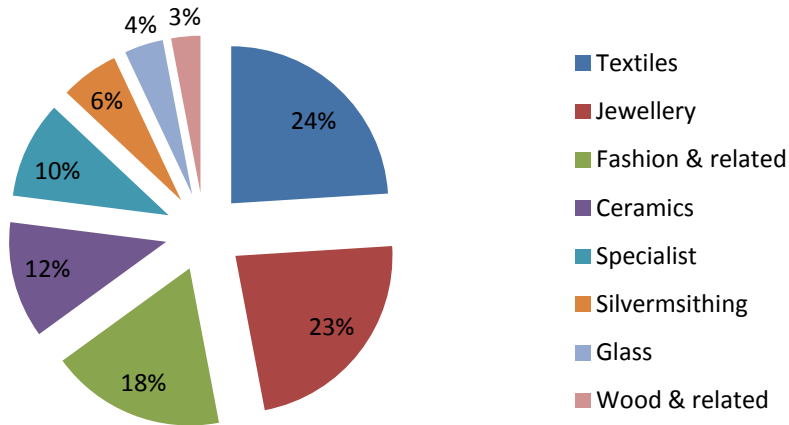
**Fig. 16: Cockpit Arts sample 2012 by ethnicity**



**Fig.17: Cockpit Arts 2012 sample by years in business**



**Fig 18: Cockpit Arts 2012 sample by craft**





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## Author's Biography

Ellen O'Hara holds a degree in Economics and Econometrics from the University of



Birmingham and a postgraduate diploma in administrative management.

She joined Cockpit Arts in 2006 where she is responsible for the design of the business development strand of the incubation offer. She leads Cockpit Arts' research projects which have a focus on craft business models and the impact of incubation on growth. Ellen previously worked for The Prince's Trust, Arts Council England and Andersen management consultancy. She sits on the Board of Directors for You Make It, a not for profit organisation that provides enterprise development opportunities for young people not in education, employment or training.