Raising the Bar

Cockpit Arts
2009 Research
Executive Summary

A study of growth trends among Cockpit Arts studio holders and the impact of incubation on their development.

www.cockpitarts.com
Introduction

Cockpit Arts is a social enterprise and the UK’s only creative-business incubator for designer-makers. Our mission is to support and promote talented designer-makers from all backgrounds through all stages of their career. We strive to raise standards in the contemporary craft and design sectors, making an important contribution to the UK cultural landscape and economy.

Our incubator package includes a combination of value for money studio space and office services, business development support, and PR, marketing and selling opportunities. It is specifically tailored to the needs of craft businesses that want to increase their profit whilst continuing to nurture their creativity.

Our research activity is designed primarily for internal purposes and allows us to measure and evaluate our approach and provide an evidence base that demonstrates its impact on business growth and success. It enables us to continuously develop and improve our suite of products and services, ensuring that we meet the ever evolving needs of our studio holders as their businesses grow and change.

Research objectives and methodology

The specific objectives of this year’s study were to:

1. Analyse the growth trends of studio holders at Cockpit Arts.

2. Provide an assessment of the impact that incubation has on business activity and performance among studio holders at Cockpit Arts.

3. Identify the incubation services employed by the best performing businesses.

The research methods included:

- quantitative analysis of data collected via the Cockpit Arts annual business review process drawn from a total population sample of 253, of which 92 related to data submitted in 2009
- comparative analysis of data held on Cockpit studio holders with a sample of 29 non studio holders and with national data held on the craft sector (the most recent being Craft: Impact & Footprint (2009), Creative & Cultural Skills)
- interpretive qualitative analysis of information gathered through surveys, one-to-one interviews and focus groups
- comments and feedback on the initial findings, solicited from a number of key partners and opinion formers
- a literature review (see references)
Key trends and the impact of incubation on growth

Financial performance

- Levels of turnover among the sample range from £1,000 to £129,000 with a mean average of £27,583. Isolating the full time makers (working 5 days per week or more) for the 2009 sample generates a higher mean average turnover of £36,274.

- 90% of respondents reported an increase in turnover in 2009 compared with the previous year, compared with 26% of craft businesses nationally. This is a significant increase on previous years when 71% reported an increase in 2008 and just 63% reported an increase in 2007.

- Overall levels of turnover have increased since introducing the incubator model in 2005. Respondents reporting turnover below £10,000 have declined from 57% in 2005 to just 30% in 2009. Respondents reporting higher levels of turnover, of £20,001 upwards, have increased from 25% in 2005 to 39% in 2009. Respondents reporting turnover of £50,000+ have significantly increased from zero in 2005 to 16% in 2009.

Figure 1: Turnover by band by review year

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1 Creative and Cultural Industries Workforce Survey, Creative & Cultural Skills, (2009)
The average rate of change in turnover is 59%. This represents the highest average growth rate reported by Cockpit studio holders to date, compared with an average growth in turnover of 49% reported in 2008, and just 30% in 2007.

Profits range from £0 to £69,000 among the 2009 sample. 13% of businesses reported profits of £20,001 or above and 17% reported profits of between £10,001 and £20,000. Of the remaining businesses (reporting profits of £10,000 or less), 83% are either in their first two years of business or currently working on a part time basis.

57% of businesses report an increase in profit compared with the previous year, and 38% report no change. Again this is a significant increase on previous years, when 43% and 23% of businesses reported an increase in profit in 2008 and 2007 respectively.

Overall, levels of profit have increased since introducing the incubator model in 2005. In the last two years, the percentage of businesses reporting profits of over £10,001 has more than doubled, increasing from just 14% to 30%. The number of businesses reporting low levels of profit (£10,000 and below) has fallen from 86% to 70% between 2007 and 2009.

The average increase in profit among the sample is 158%, significantly higher than in previous years. Reported average growth in profit stood at 31% respectively in 2008 and just 2% in 2007.

Figure 2: Rate of change in turnover and profit by review year

In 2009, the best performing sectors in terms of level of turnover and profit were jewellery, silversmithing and textiles, with precious metal jewellers leading the field in terms of overall growth. Low levels of turnover and profit were most predominant
within the ceramics, glass or wood related disciplines. The mode number of years in business for the best performers is five.

- Using an approximate measure of value added GVA1 (turnover per FTE) shows that jewellery and textiles generate the most value added at £57,647 and £42,453 respectively. Using a second measure GVA2 (profit per FTE), shows that textiles and jewellery are again the best performing sectors.

- Overall, comparing GVA1 with previous year’s, suggests that value added among the sample has increased overall. The number of businesses generating less than £20,000 value added has fallen from over 70% between 2005 and 2008, to 55% in 2009. Furthermore, 15% generate value added of over £50,000, which is a significant increase on 2008.

Business models

- Business models among the most successful businesses vary and reflect the diversity of craft discipline, age of business, market and values of the individual business owner.

- The majority of craft businesses at Cockpit Arts have multiple income streams relating to their craft activity ranging from commissions; wholesale orders (business to business); direct retail orders (business to consumer); licensing and publishing arrangements, and consultancy related to their craft activity.

- A mean average of 17% of turnover per annum is derived from the twice yearly Cockpit Arts Open Studios events, a marginal increase from 15% in 2008.

- Overall, there has been an increase in average turnover derived from commissions in the last 12 months (from 21% to 33%), a marginal increase in wholesale orders (from 24% to 28%) and a fall in the percentage derived from other direct retail sales (from 36% to 18%).

- Income derived from ‘other’ sources such as licensing, publishing and consultancy stands at 4%. The percentage of respondents involved in licensing rose from zero in 2005 and 2006 to just 2.7% in 2007 and 1.2% in 2008. In 2009 this rose to 11%, a significant increase.

- Respondents spend an average of 39% of their overall business expenditure on direct costs, which represents the single largest outlay. Direct costs equate to an average of 29% of overall turnover. In other words, studio holders report an average gross margin of 71%, with the median being 73%.
Marketing and selling costs stand at an average of 17% of overall business expenditure, and an average of 13% of turnover among the sample. Very high percentages of marketing and selling costs were common among those businesses that target the fashion market and/or derive a higher than average percentage of overall turnover from wholesale orders.

Studio related costs varied the most among the sample and averaged at 31% of total business expenditure, with a high of 53%. This equates to an average of 23% of turnover. The best performing businesses allocated significantly less to studio related costs, an average of 11% of overall turnover.

In recognition of the importance of affordable, value for money studio space, Cockpit Arts has secured sponsorship of a number of Awards (bursaries) providing selected designer-makers on low incomes, or who practice a specialist craft, with a subsidised studio.

Gross margins range from as high as 99% to as low as 35% among the sample with high margins being most common among ceramists, and low margins being most common among jewellery and textile businesses.

It can be difficult for a craft based business operating in a niche market to achieve economies of scale, because fixed costs such as studio rent are not spread over a larger number of outputs. Overall, respondents report a net average margin of 25%. Makers who take regular drawings from their business, of at least £20,000 per annum, have an average turnover of £67,500.

Of the best performing businesses, average net margins are higher at 40%. This means that, in order to generate a net profit of £30,000, the business would need to generate a turnover of £75,000. This suggests that a craft business becomes sustainable at this point, which also happens to be close to the VAT threshold.
Management processes

- Earning a living through full time craft practice, autonomy, and time and space to develop creatively are the three key drivers among the sample.

- Business goals vary accordingly to individual values, with broad patterns at different stages of growth. Stated business goals have become more articulated, specific and measurable since 2005, with greater occurrence of financial targets.

- Strategic planning has become more prominent and 61% of respondents report to have a formal business plan in 2009, an increase from 13% in 2007. Similarly, those with marketing plans have increased from 8% in 2007 to 59% in 2009.

- 84% of the best performing businesses have strategic plans suggesting a strong correlation between formal strategic planning and improved business performance. 83% of those with strategic plans had accessed one to one support in the last two years.

Figure 4: Businesses operating in each market in 2009

Marketing and sales processes

- 51% of respondents stated they had made significant creative or product developments in the last year and that this had made an important contribution to their business development.

- Building in time for the research and development of new work is crucial to the ongoing development and growth of a craft business, and is cited as a key driver by 100% of respondents.
Evidence suggests that businesses are diversifying their markets, which is fueling growth. Only 18% of respondents sell solely to the contemporary craft market. 43% of respondents are also selling to the high end gift and/or interiors markets, as well as to the craft market. The percentage of businesses selling to these markets has more than doubled since 2008 and the highest levels of turnover are reported by those operating in more than one market.

Our recent Maker Difference campaign, which aimed to encourage support of designers making work in the UK, successfully impacted on Open Studio visitors, which saw a 47% increase in Holborn and a 30% increase in Deptford compared to the previous year.

46% of the best performing businesses have directly benefited from PR and marketing services provided by Cockpit Arts in the last 12 months including discounted trade shows, buyer and press tours or promotions.

87% of studio holders derive a significant proportion of their income from Cockpit Arts Open Studios, 73% of respondents sold through retail shows in 2009, 14% sell through own website.

Those businesses engaged with wholesale trade reach their market via trade shows, retail shows, agents, and direct approaches to retailers. The number of respondents selling wholesale has increased since 2008 from 64% to 79%. We know anecdotally that the number of makers engaged with e-commerce and sales through on-line shops accounts for some of this increase.

The overall percentage of respondents exporting rose in 2009 to 44% compared with 36% in 2008. Export income stands at a mean average of 11% of overall turnover. An increasing number of respondents are accessing multiple overseas markets with France, US and Japan being the top destinations.

Operational processes

15% of respondents had increased the size of their studio since 2008, an indicator of growth and increased business activity.

In 2009 there was a shift towards full time practice among the sample with both a mean average and mode number of days of 5.

Average levels of turnover and profit do not appear to increase significantly between 1FTE and 1.4 FTE, suggesting that those working overtime may not be as productive as their full time counterparts.

Making activities take up the largest percentage of a business owner’s time, a mean average of 49%. Higher than average levels were common among ceramists and part time businesses.
Those makers that spend the highest percentage of time on administration and marketing were among the best performers. There is clearly a need for business owners to ‘get the balance right’ in terms of how they spend their time, and to focus on the activities that add the most value.

Investment of time and money in formal training is uncommon among the sample. This correlates with trends for the creative industries in general.

Use of long term PAYE employees is rare, having shifted from non-existent in 2008 to 2% in 2009. Outsourcing is common however with 49% reporting to have outsourced manufacture in 2009, an increase from 44% in 2007 and 36% in 2008. Those businesses that outsource manufacture tended to have higher levels of turnover and profit, an average of £40,000 and £13,720 respectively.

Engagement of work experience students is very common across all crafts, at all stages of business, with the majority undertaking unpaid work for short periods of time (3 months or less) during busy times of the year.

Use of ITC in business varies among the sample in line with the ITC literacy of the business owner. 100% use internet and email, 85% use business letter templates, 71% use ITC for financial management, 59% for selling and 39% for marketing.

53% of respondents reported to have other paid work in 2009, a fall from 78% in 2008. This correlates with the shift towards full time practice and increasing profits among respondents.
• Portfolio working is most prevalent in the earlier years of business, with 72% of businesses in their first three years undertaking other paid work, compared with just 51% of businesses that have been trading for 4 years or more.

• For some, portfolio working is a choice and considered as part of the business model, while for others it is a necessity while the business is developing.

Isolating the impact of incubation

From which incubation packages have the best performers benefited?

• The Cockpit Business Growth Loan Scheme has been a particularly successful vehicle for growth among the more established businesses. The participants of this scheme report the biggest improvements in overall financial performance.

• Loans issued in 2007 and 2008 have made a significant impact on turnover with increases of up to 600% in a two year period. Profits have increased, with a high of 1300% and an average of 185% over the same two year period. The scheme also reaped less tangible benefits such as increased confidence, drive, focus and motivation among the participants.

• Although there are some broad trends, further analysis reveals that the best performing businesses have all benefited from the core incubation package in different ways. Studio holders access different combinations of business development support that meet their needs at the different stages of growth.

• Case study analysis reveals that the best performing businesses have also benefited from a variety of additional services provided by Cockpit that relate to their specific business models and goals. Examples include representation by Cockpit Arts at Collect, discounted trade show stands negotiated by Cockpit Arts or referral to specialist agencies such as UK Trade and Investment.

The perceived impact of incubation

• Being part of a community of designer-makers was cited by 85% of respondents as making a significant or moderate contribution to their business development, 71% and 14% respectively.

• Cockpit’s London location was also cited as making a significant or moderate contribution by 85% of respondents (61% and 24% respectively), and was considered important for convenience reasons as well as providing kudos.

• The data analysis highlights the importance of affordable studio provision at all stages of a designer-makers career, and this is verified by the 85% of respondents who rate this as making a significant or moderate contribution to their development (57% and
28% respectively). Studio space provision at Cockpit was in fact the only factor considered as making a contribution, whether it is small, moderate or significant, by every respondent.

Figure 6: The contribution of incubation to business development in the last 12 months

- The Open Studios were cited by 80% as making a significant or moderate contribution to business development (52% and 28% respectively) by providing a range of direct and indirect sales opportunities.

- Association with the Cockpit Arts brand is rated as significant or moderately important by 82% of the sample (42% and 40%) and seen as a ‘kite mark’ for quality in the sector by respondents.

- 66% of respondents said that one to one coaching makes a significant or moderate contribution to their business development, 42% and 24% respectively. Those who felt it had made a significant difference were spread across the crafts, at various stages of business and had accessed between one and eight coaching sessions in the last 12 months. Those who rated coaching as making no difference had not accessed any one to one support in the last 12 months.

Other contributing factors

- ‘Hard work’ is cited by 100% of respondents as a key contributor to growth. The human factor is undoubtedly a key driver for success in any micro-business.
11% cite external market forces as having a significant impact on their business development in the last 12 months.

Only 10% of respondents said that business or professional development from another service provider had made a contribution to their business development in the last 12 months.

Conclusions

The quantitative analysis, supported by qualitative data and case histories, provides ample evidence of business growth between 2005 and 2009 and that incubation is a major contributing factor to this growth.

Overall levels of turnover and profit have both steadily increased since the incubation model was introduced in 2005. The significant decline in businesses reporting low levels of turnover and profit, and the increase in those reporting higher levels of turnover and profit, demonstrate the success of the model in terms of raising overall levels of financial performance. 14% of this growth can be attributed to inflation, which means that this represents growth in real terms of at least 95% for average turnover and 45% for average profits reported between 2005 and 2009.

Most significantly, year on year a higher percentage of studio holders are reporting improved financial performance. Equally, respondents are reporting an increasing rate of change in levels of turnover and profit each year, with the highest average increases in turnover and profit being reported in 2009.

Being part of a creative community, affordable, good value studio space, Open Studios and one to one coaching are the cornerstones of Cockpit’s unique offer. The combination of intensive business planning, low interest loan and on-going coaching provided by the Cockpit Arts Business Growth Loan Scheme has proved a particularly successful mechanism for growth.

The evidence suggests that craft businesses at Cockpit Arts are raising their game and that incubation has helped to develop an entrepreneurial culture. The significant increase in businesses with formal strategic plans suggests a change in mindset among respondents, something which Cockpit has worked hard to affect over the last four years.

The findings also suggest that this increase in strategic planning is closely linked to the increase in take up of one to one coaching and has a strong positive impact on financial performance.

Further indicators of growth among the sample include the shift towards full time practice; the increase in export activity; market diversification; an increase in licensing
activity, and an increase in businesses outsourcing activities such as manufacture, administration and sales.

- The fact that the best performers have all benefited from incubation in different ways reflects the diversity of business models and development needs. This supports the need for a tailored, flexible package based on a business diagnostic and review and on-going 'account management'.

**Recommendations & Future Plans**

- Isolating the impact of incubation is challenging and we plan to initiate a series of research and evaluation projects in 2010 to build on our existing evidence base. These will include:
  - Data collection and analysis of non Cockpit studio holders in partnership with other incubators, membership organisations and networks
  - A Social Return On Investment study
  - A longitudinal evaluation of the Cockpit Business Growth Loan Scheme, which comes to the end of its pilot phase in Spring 2010.

- The findings will also inform our programme of support for 2010 which will include a series of Action Learning Sets tackling some of the specific identified needs, such as employing people and the specific growth challenges facing the ceramics sector.
Footnotes / glossary

Incubator: Business incubators are designed to accelerate the successful development of businesses through an array of support resources and services which include space, hands on intensive business development support, access to finance and experts, and to other entrepreneurs and suppliers that can support their business growth.

Best performing businesses: defined as having higher than average turnover for sample in 2009, ranging from £28,000 upwards and significant change in turnover reported between 2008 and 2009. There are 18 businesses of this nature.

Also in this group are 19 businesses that have lower than average turnover (ranging between £3,000 and £24,000), but who have reported high levels of growth between 2008 and 2009 (between 13% and 400%).

Also trading well are a further 4 businesses whose turnover is significantly higher than the average (£40K+), and have either maintained levels of turnover or have reported growth of between 1% and 10%.

Businesses performing least well: defined as those businesses that have below average turnover ranging from £2,000 to £22,000. Also in this group are those businesses that have reported a drop in turnover between 2008 and 2009. There are 11 businesses in this group.

Wood related businesses: including furniture, musical instruments and framing.

Specialist craft businesses: including book and paper arts, product design, set and costume design.

Fashion and related businesses: including garments, millinery, shoemaking and fashion accessories.

Gross value added: defined as the difference between the cost of producing goods or services and their sale value in the marketplace (www.statistics.gov.uk).

FTE: the number of full time equivalent staff in a business.

Drawings: money drawn from the business as wages for the business owner.

Productivity: a measure of business outputs (products or services) in relation to specified inputs (such as number of staff).

Turnover: defined as sales derived from craft activity.

Profit: defined as pre-tax profit before drawings.

Part time: defined as working 4 days per week or less (between 0.2, 0.4, 0.6 and 0.8 FTE)

Full time: defined as 5 days per week or 1 FTE

Over time: defined as working 6 or 7 days per week, or 1.2 and 1.4 FTE
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