



CAKE PRO

Know your numbers



'I have a great business and everyone says my cakes are great, but I just don't seem to be making much money.' Sound familiar? Take David Brice's expert advice

To run a profitable cake business, you must know and have control over your numbers to have control over your business. It is as simple and important as that. You may well be a brilliant cake designer, but if you're not good with numbers, find someone who is, or you will struggle.

PUT A VALUE ON EVERYTHING

Start with the basics. You probably have equipment such as mixers, moulds, an oven, cake tins, etc. Enter these on a spreadsheet and put a value against each. What courses have you been on, what magazine subscriptions? Account for every single cost incurred to get your business going. If you also use your oven to cook the family meals, calculate as a percentage the time it is used just for baking, then work out the approximate

value of the oven and allocate the percentage of that for baking to your business. Keep records to show how you reached that price and you can then offset this cost against tax.

If you bought these items with your own money, you may have already paid tax on that money. Bringing these assets into the company means the company then owes you this money back. It's a legitimate debt, so it increases the amount you can earn before paying tax.

CALCULATE YOUR COSTS

You need to know your weekly or monthly break-even figure. This is your fixed weekly costs, your wage, ingredients and the value of cakes you need to make in order to cover these costs.

Your fixed weekly costs will be things like rent, electricity, marketing, phone,

etc. Let's say that your weekly running costs are £100. You then need to work out what your weekly wage is – let's say £250. So adding this to the fixed costs, you already have to find £350 per week.

To work out how much you need to earn in sales, work out your cost of sales. These are the ingredients, cake board, ribbon etc. You'll need to know this number as a percentage of your gross sales, which you can take an educated guess at to start with, then make more accurate going forward. Our last cost of sales percentage was 30%.

With the example above, your key numbers are: running costs £100; pay £250; cost of sale 30%. Using these numbers, the business has a weekly break-even figure of £500, as the cost of sales based on 30% is £150.

Remember to make adjustments for seasonality – £500 per week should be far easier in summer wedding season than the quieter winter months, so bank enough income from the higher-earning months to cover the quieter periods.

BE VAT SAVVY

As a UK business, regardless of your turnover, you CAN register for VAT. You then pay VAT on sales you generate and reclaim VAT on expenses, but here's the bit so many cake designers don't know – cakes are zero-rated for VAT. On your VAT return you declare all your cake sales as zero-rated and put through the VAT on all the purchases you've made, then you get all the VAT on purchases back. Speak to HMRC for more advice.

CHARGE THE RIGHT PRICE

To improve profitability you can reduce your costs, increase your orders or put your prices up. Most cake decorators simply do not charge enough for their cakes, so if you are not making profit, put your prices up to a point that you will. There seems to be an in-built fear of putting prices up, which I understand, but you will then attract customers who are more interested in the quality and personal touches that you will bring to ensure that their order is in safe hands.

Make sure you assess your actual sales against your forecast and how much you actually paid in running costs at least once a month, and review your cost of sales percentage every two months.

MEET THE PRO...

David Brice partners Paul Bradford running their successful sugarcraft school in Scotland.