

Pros & Cons of a Bricks & Mortar Cake Store

What are the Pros and Cons (advantages and disadvantages) for opening a bricks and mortar, cake + cupcake store front, café, dessert, cupcake or cake shop, shopping centre stall or kiosk.



When you realise that all you ever think about (awake or asleep) is cakes, cupcakes and frostings and it is ALL YOU WANT TO DO.

I have had a lot of clients ask me this question recently and we have gone through all of these details to weigh up:

- If this is the right decision for them.
- Details included in making this dream a reality.
- How much does it cost? (How much do I need?)

For some people they have never worked with cakes but it is a lifelong (or long time) dream. Or it is hard to take on very many orders to your home oven and storage capabilities.

Money is usually the biggest hurdle and stopping people from their bricks and mortar dreams and look for fresh set of eyes (*and maybe a kick in the pants that you need. Huh?*)

Note – I have never bought a bricks and mortar food business, nor set one up. My experience is I have been in the food industry for 15+ years. I have worked in independent bakeries and managed one of them. I have managed The Cheesecake Shop franchise and have run and operated my home cake business. The advice and information below is in my experience, researching and studying Cert III in Small Business Management.

First step.

Ask yourself why.

Why do you want to open a cake shop? (Write it down right now.)

Honestly with anything you do in business or life, the very first thing you should do is ask yourself why you are doing it.

Do you want to own a shop so you can sip lattes and eat cupcakes all day?

Do you want to own a shop because you live for cupcakes?

Do you want to own a shop for financial security or financial future?

Write all your reasons down why.

Licensing & Legalities

To sell food you will need to have a **food license**.

You will need to ask your local health department what their costs are and what you need to know.

Depending on what country you are in, you may need to **register your business name** and get set up for tax.

Insurance will also need to be a necessity.

In Australia you will require a commercial food license. You will also need to register a business name and **get an ABN** (Australian Business Number).

How much does it cost to start a shop front?

Depending on what type of shop/kiosk/stall you want, location and whether you are buying already fitted out (or not).

To set up a store, fit it out, benching, machinery, flooring, cabinets, tables, cool room, fridges, freezers, plumbing, electrical, chairs and all the bells and whistles, I'm not going to lie to you. It is expensive.

A home cake business is a cheaper option because you don't require a commercial grade food mixer, flooring or benches. But in a commercial kitchen with commercial grade everything is WAY more expensive. For example a cool room is over \$10,000 plus regular servicing, maintenance and break downs.

As a general over view a reasonable expectation for a shopping centre (middle) kiosk would be anywhere between \$50,000 - \$100,000. A store front would cost \$300,000+. (*This is in AUD. Convert to your own currency.*)

Overheads. Ongoing costs.

Rent.

The biggest over head is usually rent. Unless you are purchasing the shopfront outright (which is obviously more expensive).

Rent can vary greatly and mostly depends on the location.

I suggest to be aware of what they are charging (to later work out your budget).

Now, it is possible to negotiate deals with the shopping centre or landlords. For example if the shopping centre has a couple of shops that have been vacant for a while you have greater negotiating power. You won't know if you can negotiate or make a deal without asking, so I do suggest asking.

I have heard of a particularly quiet shopping centre (it wasn't the most popular in the suburb) and always had empty shops. They shopping centre offered 1 year rent free to build up her business with less over heads, on a 5 year lease.

Of course, get advice from legal representative and accountant with anything to do with signing a piece a paper or money!

Insurance.

You will need **several types of insurance**. From public liability (if someone gets hurt) to property damage (tool and stock), income protection (if you can't work for some reason), employers liability (if you have any employees).

In Australia you need to have Workers Compensation for any employee, which would be approximately 2% on top of their wage (very rough average, as it depends on state, amount of wages and industry.)

Electricity, heat, water.

These are categorised under overheads and should be added to your business plan.

Maintenance.

Your machinery will need to be regularly tested and tagged and serviced. Also, when equipment breaks. This all comes out of your profit margins (*we will talk more about this below*).

How to get finance?

There are 2 options. *Either you finance yourself or someone else finances it.*

They are you only 2 main options. Of course, you might choose to part finance yourself and someone else part finance it and that is a genuine option.

Bank and Financial Institutions

Getting a business loan from a bank or financial institution is the most common option. Each bank has different requirements. At the moment most will not finance more than 50% of your total capital, do you do need to have 50% of your own finance. (Plus bare in mind, that is not 50% of start up costs. That is 50% of start up costs PLUS at least 6 months running costs.)

Investors

You can look at getting someone to invest in you and your business. It could be a partner, friend, family or business investor.

Consider the terms of what the investor would potentially be looking for. Will they be a silent investor? Will they be a % investor? Will they be working daily/weekly/monthly in the business and how many hours? What are the loans terms, conditions, interest and payment period?

Angel investors are silent business investors and you can find them on Google. They are entrepreneurs who invest back into other entrepreneurs. That is another option, but again ask yourself the questions above. What if they own 60% of the business?

Cash Flow. Unexpected costs.

This is something a lot of people forget about. They get the finance for exactly what they need plus maybe a 5% margin of error and yet this is the same cost as purchasing the business.

What am I talking about? Running costs.

It is 100% essential to have 6-12 months of running cost fund available so that you can pay for wages, ingredients, rent, etc while you are building up the business. In fact if you are getting finance from a bank, they will insist upon it!

Baring in mind:

1/3 income – pays wages

1/3 income – pays overheads (rent, ingredients, packaging)

Of expected income. So you are expecting \$30,000 turn over per month, then you will need to have \$20,000 (2/3) x times 6 months = \$120,000 in additional finance.

That is taking into account that you are at risk of not making anywhere near your projected income, that you will extra wages when starting out, that you will sell less while building up your business. This is also a bit of 'insurance' that your business is less likely to fail in the first 12 months.

And that also means no profit, of very little profit for 6-12 months.

Hiring of staff

There is a fine line between understaffed and overstaffed and you will constantly be trying to find that balance. With 1 extra staff member working 20 hours per week, that will cost you \$20,000 per year out of your profit margins.

The other end of the scale is under-staffing, to try and improve profit margins, meaning you and your staff work smarter and harder.

There are legal requirements when hiring of staff. Plus unexpected costs, such as staff training (before even opening shop + every time someone needs replacing). Plus paying of Workers Compensation, Medicare Tax, Social Security Tax, sick leave, holiday pay, superannuation, depending on

your country. I would suggest adding between 10-20% per wage to cover these costs. (If someone is earning \$40,000 per year, your true costs will be \$48,000).

How much money you can make?

Let's face it. This is what you really want to know!

It depends on the size of your establishment (obviously). The small independent bakery I worked in sold \$1000 over the counter every day, plus wholesale orders, plus cake orders. Large cafes and shops have the potential to make \$20-40k per month.

I would suggest write out a bit of a business plan, with projected or forecasted earnings. What would be your realistic goal?

Profit Margins.

To get finance you will need a business plan (we will talk about financing soon) but even if you aren't getting a loan, you should still do a business plan for yourself.

The first numbers you need to be aware of is the breakdown of income.

- 1/3 income – pays wages
- 1/3 income – pays overheads (rent, ingredients, packaging)
- 1/3 income – your profit

So, for a monthly income of \$30,000 as a rule of thumb \$10,000 would pay wages, \$10,000 pays over heads and \$10,000 is profit.

Sounds pretty awesome, right?

Well, I'm going to burst your bubble. Yes, while 1/3 is potentially your profit and building to your financial freedom, let me paint you a scenario.

You are training a new staff member and she has burnt some cakes and dropped a couple. Those staff mishaps come out of your profit margins.

When your food on the shelves are out of date and need to be thrown in the bin (wastage), that comes out of your profit margins.

When the cool room breaks down that comes out of profit margins.

For wastage I would suggest to realistically account for about 5% of your income (and potential profit) to come out of your profit. That is exactly how the food industry works.

Now that 33% profit minus 5% wastage equals 27% profit.

Staff mistakes account to 2-3% of profit, so your profit is now 24%.

Investing in marketing, advertising, tools, equipment, training All comes out of profit. You are now looking at about 10% profit margins.

With a franchise, they charge a 5-10% franchise fees. So now you work for 5% profit. It becomes a lot less glamorous, quite quickly, doesn't it?

That is why, when I say the very first step of a bricks and mortar is WHY.

Why are you getting into business? It is important to understand yourself, skill set, experience, personality.

Because you will need to be on TOP of your book keeping. You will need to be constantly re-evaluating your expenses and reducing them. You will need to minimise wastage daily.

This isn't to discourage you, quite the opposite. If you really want a shop front, you should absolutely go after that dream! My intention is to be as honest and provide sound advice, so that you can last longer in business and not be part of the **80% who fail** and close business in the first year, because you didn't get the right advice or enough advice for you and your situation.

In case we haven't officially 'met' yet ...

Hi 😊 I'm Rebekah (Allan) from Angel Foods – AKA the Cake Business Trainer + creator of Cake Business School.

I'm a North Qld country gal, now living in Brisbane with hottie boyfriend.

I have worked in a bakery for 10 years, am a qualified Baker + Pastry Cook, have franchised nationally with a (special) knack for teaching and cakes!

AND THAT'S WHY I CREATED [CAKE BUSINESS SCHOOL](#).

It's about hanging out with peeps, who are just like you!

I've taken everything I've learned through 15 years in the food industry INCLUDING what I learnt in my cake business + franchising and packaged together in rainbow coloured paper into a training course, which takes just 1 hour per month!

Like this workbook CBS is about IDEAS and actionable steps and sends you on your way to growing your cake

business. And the 'recipes' of success aren't about the latest cake lace techniques ...

They are timeless steps that requires just a bit of training.

Xx Remember, it's time to live your sweet biz dream!

