

“A large income is the best recipe for happiness I ever heard of,” says a character in Jane Austen’s “Northanger Abbey.” Cry shallow if you will, but you cannot deny that a healthy income is a key ingredient in any recipe for success.

EDITED BY LESLIE HUNT

# How you can make more money

PPA'S GROUNDBREAKING  
NEW FINANCIAL SURVEY  
CAN BE YOUR GUIDE

All images ©Getty Images



The information presented here is an abbreviated version of the 2005 Studio Financial Benchmark Survey Analysis, the results of an invaluable PPA Studio Management Services study spearheaded by Ann K. Monteith, M.Photog.Cr., Hon.M.Photog., CPP, PPA chairman of the board, and a tireless studio business consultant, and Scott Kurkian, PPA's chief financial officer. The complete study is available for PPA members as a downloadable PDF document at [www.ppa.com](http://www.ppa.com).

—L.H.

## SPEND LESS. CHARGE MORE.

“Knowledge is power,” said British philosopher and scientist Sir Francis Bacon. It was true four hundred years ago when Bacon said it, and it's no less so now. Now professional photographers have the knowledge they need to power their success.

Studios across the board are not netting as much money as they could be, a new PPA survey reports. What do the best-performing studios out there have in common? They spend less, pushing fewer dollars toward general expenses of employees, administrative services, sales and production than their average-earnings counterparts; and they charge more, placing a premium value on their photographic merchandise.

**“Groundbreaking” is a mighty descriptor, and it aptly applies to the first major financial survey of the photography studio business.**

After nearly a year of tabulation and evaluation, Professional Photographers of America has released the results of a groundbreaking financial study, the 2005 Studio Financial Benchmark Survey Analysis. Beyond being a financial picture of wedding and portrait photography studios in America in 2004, this

work provides true benchmarks that studio owners can use *today* to compare their financial operations to studios with similar sales or years in business, and assess their productivity against overall industry averages and best-performing studios. It also confirms the financial benchmarks recommended by PPA's business instructors and Studio Management Services (SMS).

Exactly what does PPA's Benchmark Survey provide? It gives photographers the power to:

- Determine exactly how much more money you could be making if you

managed your business according to the benchmarks achieved by best-performing studios.

- Diagnose profit-draining areas of your business.
- Set up your financial records according to managerial standards that give you the information you need to make informed business decisions.
- Feel the confidence that comes from knowing exactly how your business is performing.

Survey findings were based on information

provided by 180 photographers whose business had generated at least \$25,000 in gross sales in 2004; who had derived at least 50 percent of their income from portrait and/or wedding photography; and had filed a 2004 income tax return. The business records were audited and verified for accuracy by the SMS accountants.

Photography businesses come in all sizes and stripes, so the accountants had to sort and order the raw survey data to make it meaningful. They made separate analyses of home-based and retail studios, of average and highest-performing studios, and of the studios' years in business.

#### MISSING THE MARK

The study's overall findings are revealing. Owner's compensation and net profits were less than stellar: home-based studios—average gross sales of \$129,394; annual net profit plus owner's compensation: \$32,977 (25 percent of gross sales); retail-location studios—average gross sales of \$238,689; annual net profit plus owner's compensation: \$46,036 (19.3 percent of gross sales).

Clearly, home studio owners keep a higher percentage of gross sales than retail owners. However, on average overall, the studios in both categories missed reaching the recommended profit benchmark (35 percent of gross sales) by 10 to 15 percent.

There is hope though. Top performing studios in both categories exceeded the benchmarks and did quite well financially. The best-performing home-based studios—average gross sales of \$200,097, annual net profit plus owner's compensation: \$81,527 (40.7 percent of gross sales); best-performing retail studios—average gross sales of \$278,159, annual net profit plus owner's compensation: \$102,789 (37 percent of gross sales).

Why the discrepancy? Analysis reveals that on average, retail studio owners' prices were not high enough to compensate for the



**In fact, the studios that used projection were almost twice as profitable as the studios that used paper proofs.**



studios' general expenses, which are higher than that of home studios. Best-performing studios in both categories spent much less on the general expenses of employees, administrative services, sales and production than their average counterparts. Best-performing home studios, which keep almost 41 cents of each sales dollar, have both a low cost of sales percentage (27.4 percent compared to 33.3 percent for all studios) and a very low total labor percentage (4.6 percent compared to 8.3 percent overall).

In looking at financial performance according to years in business, the survey reinforces a classic lesson in business success: Early on, studios need to reach their respective sales volume benchmarks to derive a reasonable profit. Based on the best-performing studios, the survey suggests that if home-based studios reach a volume of \$150,000, owner's compensation and net profit at year's end will likely come to \$52,500. For retail studios, a sales volume of \$250,000 will yield a bottom line of \$75,000.

Yes, there *is* more to it. Here's where the beauty of the 2005 Studio Financial Benchmark Survey Analysis begins to reveal itself in its remarkable clarity. The figures above depend upon the studio's reaching the interim targets, or benchmarks, in the chart on this page.

**SURPRISE FINDING:  
DIGITAL DOES MEAN LOWER COSTS**

Thanks to her years consulting businesses, Ann Monteith, M.Photog.Cr, Hon.M.Photog., CPP, PPA chairman of the board, and studio business consultant, had already concluded that studios' integration of digital technology affects some of the key factors that go into calculating these financial benchmarks. For one thing, depreciation expense has more than doubled for studios that have transitioned from film to digital, as a factor of the necessary, more frequent equipment investment.

**FORMULA FOR SUCCESS**

PPA's suggested benchmarks

**Home-based studios**

Sales volume target \$150,00  
Cost of sales 35%

General expense categories

employees (sales/administration) . . . . .	4%—5%
building expense . . . . .	3%—5%
marketing . . . . .	4%—7%
administration expense . . . . .	12%—13%
depreciation expense . . . . .	7%—9%
Total general expenses excluding owner's compensation . . . . .	30%
Owner's compensation + net profit . . . . .	35%
	\$52,500

**Retail location studios**

Sales volume target \$250,000  
Cost of sales 25%

General expense categories

employees (sales/administration) . . . . .	7%—10%
building expense . . . . .	8%—11%
marketing . . . . .	5%—8%
administration expense . . . . .	12%—13%
depreciation expense . . . . .	4%—6%
Total general expenses excluding owner's compensation . . . . .	40%
Owner's compensation + net profit . . . . .	35%
	\$87,500

Many factors offset the expenses of digital, however. The 12 studios surveyed that used film exclusively had a higher cost of sales than digital-only and digital/film studios. Given that production and labor costs are included in the cost of sales, the data suggests that digital technology is streamlining the workflow and reducing production costs. A related finding shows that presenting previews by projection is far more profitable than using paper proofs. In fact, the studios that used projection were almost twice as profitable as the 44 studios that used paper proofs.

Digital aside, by comparing sales and profits by business type—weddings only, weddings and portraits, and portraits only—the survey found that weddings-only studios registered a much higher cost of sales than the others. This confirms anecdotal evidence that wedding photog-

raphy margins are being compromised by the pressures of an increasingly competitive market.

In more heartening findings, the survey shows the efficacy of togetherness. Couple-owned businesses achieved both higher volume and better profits than those run by individuals, even if the business had employees. Moreover, studios run by individuals lag far behind studios run by dual owners, either couples or partners who both work full-time, or at least put in a comparable number of work hours.

Good news for those who yearn to get back to the land: the survey showed that being in an urban, suburban or rural location does not have a marked effect on the financial success of a photography business. That might sound far-fetched in terms of conventional wisdom, but the studio owners in the hinterlands must know what they're doing.

# 15 recommendations for a more profitable studio

PPA's benchmark survey yielded clear and focused directives

**1. Gain experience** in both photography and business before you quit your day job. It helps to start working in the industry for someone else or running a part-time business while still drawing a salary from stable employment. Keep that job until you can:

- Develop a following through referrals among your target market.
- Develop consistent cash flow from your part-time business, grossing \$50,000 to \$100,000 annually.
- Create an efficient workflow that enables

you to deliver orders on time.

- Bank enough cash to live on until your business becomes profitable, usually two to five years.
- Be fully aware of all business costs.

**2. Study the advantages of the home-based business model**, chiefly that it carries less financial risk and requires lower investment and operating expenses. With lower costs, you can do far fewer sessions than your retail-location studio counterparts, yet earn comparable income, and you can write off some home expenses as legitimate business deductions on your taxes.

**3. Budget your capital investments carefully.** Heavy debt is a key business killer. Your business must be able to generate enough revenue to pay back the bank or you for your capital investments. If you have the cash to invest in capital items and don't have to go into debt, that cash may be needed to help you survive the early business years when most studios do not generate enough revenue for the owner to draw a salary. A good rule of thumb is to purchase only those extras that you can pay for within 12 months.

**4. Use managerial accounting standards endorsed by PPA** to track your business progress. Hire an accountant who understands the photography business. It's far more complex than most accountants realize.

**5. Don't hire employees until your business can afford them.** Most experts agree that it requires about \$100,000 in additional sales to support a new full-time employee. It's not easy to run a full-time business without



## SUCCESS STORIES

How three studios made the big turnaround

### IMPROVING A FAMILY BUSINESS

In 2002, a second-generation family business, run by three family members and located in a retail space, needed to increase their profit picture. At the end of 2002, the three principals were sharing a \$156,590 bottom line. A bloated 48.8 percent cost of sales suggested that they could do much better.

With the help of a Studio Management Service (SMS) mentor, they identified the root cause of the COS problem; making too many images per session was straining resources, in turn causing high in-house labor costs. The studio was also in the midst of a transition from film to digital equipment, so it wasn't likely that depreciation expense and other general expenses would be decreasing. To increase profits they would need to reduce COS and 24 months increased total sales \$615,663 to \$755,203. Cost of sales went from 48.8 percent to 31.3 percent, primarily a result of reducing time spent in sessions, sales and workflow. Most important, owners' compensation and net profit nearly doubled, from \$156,950 to \$301,390. This brought the studio's bottom line to 40 percent, 5 percent greater than the benchmark for a well-managed studio.

### SMALL CHANGES, BIGGER BOTTOM LINE

An ambitious husband and wife had operated a busy retail-location studio for 12 years. Their sales kept growing, but they

were frustrated that their income did not.

Their 2004 year-end figures showed total sales of \$187,533, but owners' compensation and net profit of only \$18,791, or 10 percent of each sales dollar.

Only a few key issues were causing this lackluster performance, notably, extremely high depreciation expense of \$30,548 or 16 percent of total sales, and high administrative costs (including \$7,119 on props and nondepreciated equipment).

Once the couple understood their situation, they began trimming expenses and watching the numbers closely. Their diligence paid off handsomely—owners' compensation and net profit grew to nearly \$68,000 in one year. They had reduced lab costs, declared a moratorium on purchasing props, and cut equipment purchases dramatically. They also implemented a price increase that helped to boost sales by \$39,000. These changes resulted in dropping the studio's cost of sales by 3 percent.

The growth in the couple's owners' compensation and net profit caused a bottom-line swing of 19 percent, to 29 percent—quite an accomplishment in a single year.

### A WEDDING STORY: FROM PANIC TO PROFITS

In 2004, a talented metro-area wedding photographer with a full schedule of upscale weddings worked night and day to deliver the quality and service her clientele demanded. She suffered cash-flow lags and a serious need for office help. At year's end, she had only \$11,546 in owner's compensation and net profits to show for all her hard work. The accountant she paid \$7,000 a year for financial advice

suggested she book more weddings.

The photographer turned to SMS. Her initial evaluation showed increasing her wedding bookings would never solve the problem: Her business was posting a crippling cost of sales (COS) of 58.7 percent—nearly 60 cents out of every sales dollar was spent on making her clients' images and albums. Her SMS mentor helped pinpoint the reason. She was using both digital and film cameras, and the lab proofs came back in two different, incompatible tonalities. Her lab costs for reprints were out of control.



After several months of improving her digital photography and using a different lab, her COS began to drop, and by the end of 2005, was a more comfortable 41 percent. Improved cash flow allowed her to increase marketing and spend more on office help. At year's end, her owner's compensation and net profits had risen to \$80,806, or 30.7 percent of her total sales, nearly 5 percent lower than the PPA recommended home studio benchmark of 35 percent. This photographer is poised to be among the industry's best-performing home studios.

help, but the best-performing studios make the most of the help they employ. Often this means working long hours and/or accepting a helping hand from family members until the business is on its feet, and then hiring

part-timers to keep payroll costs under control.

**6. Outsource as much as you can.** The top-performing studios in PPA's 2005 survey controlled employee costs. Outsourcing

production to a professional lab helps to do that.

**7. Start a reinvestment fund.** Early on, set aside a portion of each sales dollar in a reinvestment fund for new capital expenditures. Technology is ever-changing, and it takes funds to keep up with new developments that can save you time or expand your versatility. Most studios write off 100 percent of their annual capital purchases. It's important to fund those purchases through sales to clients.

**8. Start planning for retirement now.** Business owners have numerous retirement funding options, some of which provide tax savings. Learn about these early on so that you can see your retirement savings start to grow. Keep looking to the future. Don't let your business fall victim to business cycle decline. Every year, create a 12-month business plan consisting of, at the very least:

- Sessions and sales projection
- Expense budget
- Income and expense budget
- Image-marketing plan
- Action-marketing plan
- Marketing calendar

**9. Guard your cash.** Don't manage your business according to the balance in your checkbook. A business plan that includes a cash flow forecast would help you to know when to expect lulls that will require funding. Ups and downs in business are normal.

**10. Build business volume as fast as you can,** doing whatever it takes to get clients in the door. The difference between financial success and failure often turns on the ability of a new business to build volume quickly. Get the word out any way you can: through networking with other businesses; hosting a

## 5 STEPS TO FINANCIAL FREEDOM

Tips for photographers from the head of Studio Management Services

By Scott Kurkian, PPA Chief Financial Officer

*These are five items I would definitely recommend for anyone starting a serious photography business. PPA also has created an array of financial tools and training for the photographic industry that have never been available before. Every photographer should be taking advantage of them to increase the likelihood of being successful financially. Go to [www.ppa.com](http://www.ppa.com) to learn more.*

—S.K.

### FIND A GOOD ACCOUNTANT.

Look for someone willing to invest some time with you in order to have a strong long-term relationship. Find someone who won't "nickel and dime" you to death. The best way to find a good local accountant? Get a referral from somebody you know and trust who has a small business.

### INVEST IN EDUCATION,

particularly PPA's business modules and other reliable resources. (Try Ann Monteith's DVDs and books on pricing and financial management.)

### KEEP A CLEAN, ACCURATE SET OF BOOKS.

Use Quickbooks, or tools specific to the photographic industry. Pay someone or keep them yourself, but invest

one way or another to keep your books current. Start from the very beginning.

**PAY ALL TAXES,** especially payroll and sales taxes, accurately and on-time. Nothing is more of a drain on a small-business owner than having the government on your back.

### CREATE A FINANCIAL PLAN FOR YOUR BUSINESS EACH YEAR.

Get familiar with PPA's benchmark survey results and the most successful studios' percentages. Make sure you know what your cost of sales percentage should be and price your work accordingly.



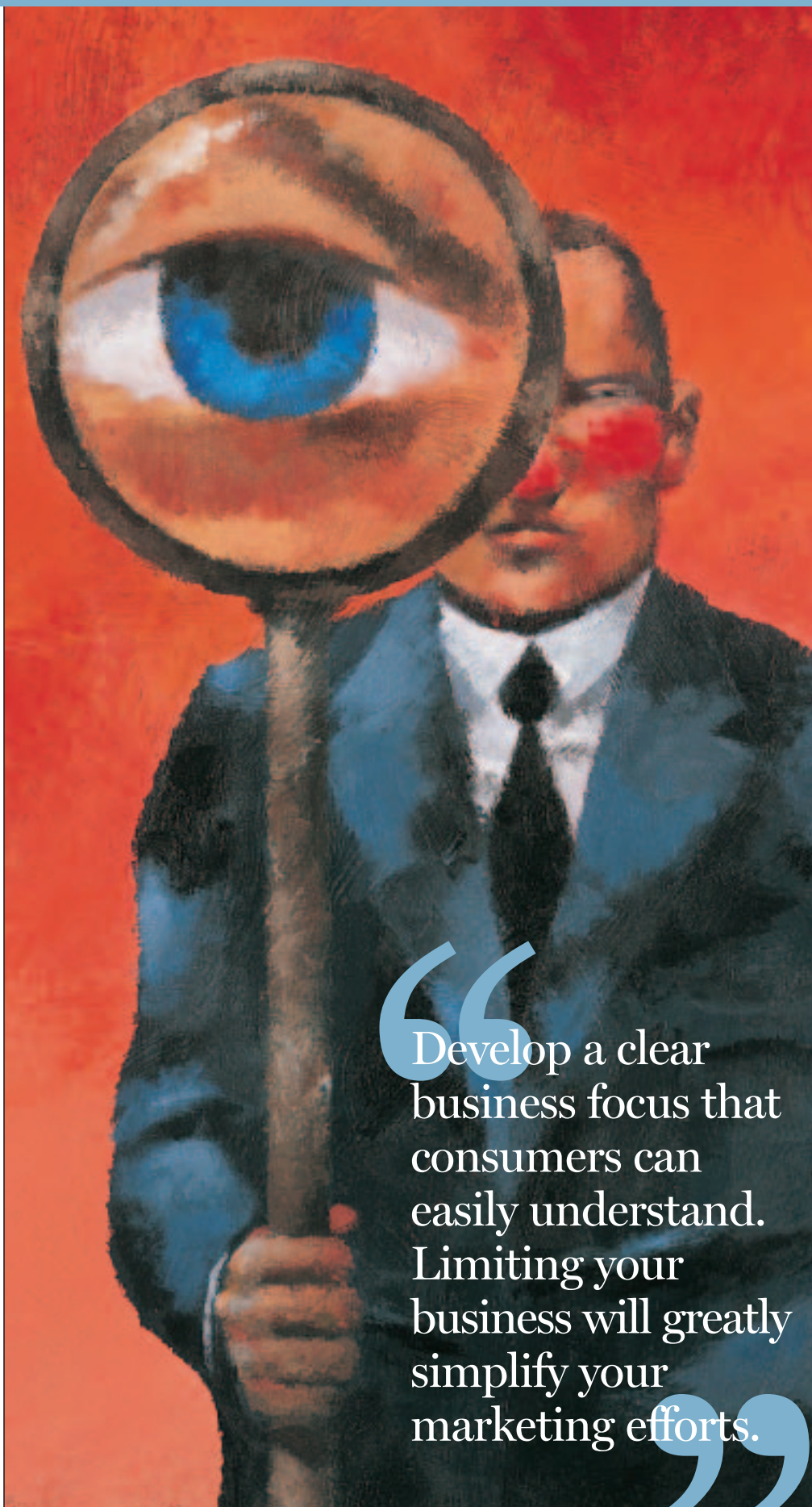
series of open house events for different community segments; get involved with charitable organizations by donating photography to their fund-raisers; look for marketing partners to help spread the word; get displays of your work on the walls of retail businesses and/or professional offices; and even offer invitational sessions for the purpose of expanding your advertising portfolio or making samples. Build your business base early to establish sales high enough to sustain the business over the long term.

**11. Develop a clear business focus** that consumers can easily understand, and formulate compelling products to excite their fancy. It might pay to start out in one or two niches, such as family and children's portraiture and wedding photography. Limiting your business will help you develop a strong focus that consumers will recognize, and will greatly simplify your marketing efforts.

**12. Study effective marketing methods.** Learn how to create year-round marketing strategies designed to attract new clients and foster returning clients, and reward them for their loyalty. An excellent guide for marketing is the "Marketing Resource & Activity Planner for the Professional Photographer" (Marathon Press; [www.marathonpress.com](http://www.marathonpress.com)).

**13. Understand how to price for profits.** Try out PPA's five-CD set, "Mastering Profitable Pricing," which covers pricing traditional photography; effective pricing strategies; pricing digital photography; effective price lists; and removing sales impediments. You can order the set from the online store at [www.ppa.com](http://www.ppa.com).

**14. Master effective sales techniques.** Develop selling plans for each product line, designating who does the selling, how it's



“Develop a clear business focus that consumers can easily understand. Limiting your business will greatly simplify your marketing efforts.”

There is no guarantee of success in any business venture, but many photographers who have succeeded in business are ready to share their cumulative wisdom, and PPA's 2005 Studio Benchmark Survey confirms the facts.

done, sales incentives and proofing policies. Industry experience shows that most photographers at least double their sales when they implement projected previews. Most business experts also agree that a planning session before the portrait sitting facilitates sales at the projection session.

**15. Expand your business education** and keep current on industry and business trends. Attend continuing education programs offered by PPA and its affiliates throughout the year. Find them on the Events page at [www.ppa.com](http://www.ppa.com).

There is no guarantee of success in any business venture, but through PPA, many photographers who have succeeded in business are ready to share their cumulative wisdom, and the 2005 Studio Benchmark Survey confirms the facts. The members-only online version of the survey contains in-depth, specific data and analysis available nowhere else. ■



**FOR A COPY OF THE SURVEY**

To download the 2005 Studio Benchmark Survey, go to [www.ppa.com](http://www.ppa.com) for details. The 37-page report includes educational analysis of the year-long survey's findings, and detailed financial information representing all participating studios. In-depth financial snapshots of the three studios presented as case studies on p. 39 are among the offerings.

**PLEASE NOTE:**

Photographers have been so enthusiastic about the Studio Management Services program that PPA has temporarily stopped accepting additional studios into the program. However, the program is expanding and will allow more members to participate within the next three months. If you would like to add your name to the current waiting list, please email [psaje@ppa.com](mailto:psaje@ppa.com).

**SMS WORKSHOP: PLANNING FOR PROFIT**

There is still SMS guidance available though! Don't miss Studio Management Services' first-ever business workshop, in Atlanta, December 4-6. You'll get practical instruction in both a group setting and a one-on-one consultation. Topics include sales, pricing, brand marketing and employee management. Instructors include PPA-approved business instructors Carol Andrews, Scott Kurkian, Lori Nordstrom and Ann Monteith. Register today by calling 800-786-6277.