

REPORT OF FINDINGS



Professional Photographers
of America

STUDIO MANAGEMENT
SERVICES

2005 STUDIO FINANCIAL
BENCHMARK SURVEY ANALYSIS

**Professional Photographers of America
2005 Studio Financial Benchmark Survey Analysis**

by Ann K. Monteith – July 2006

When PPA accountants began compiling data for the Association's much-anticipated "Benchmark Survey of Financial Comparisons of Photography Studio Operations" last September, they knew it would take almost a year to complete the complicated business of auditing and verifying 2004 year-end financial records of the 180 participants who volunteered their accounts. In a sense, however, the road to the survey has taken more than 50 years to travel. To study this history is to recognize the struggle of photographers to make sense of business principles that often are at odds with their artistic passions. To understand the survey's substance is to conclude that studio owners now have a reliable financial evaluation tool to help them better understand what it takes to achieve financial success in the business of photography.

By definition, a benchmark is "a standard by which something can be measured or judged." Professional Photographers of America's 2005 Benchmark Survey is a financial snapshot of the photography industry in 2004. Its findings will allow studio owners to compare their financial operations to other studios of similar sales level or years in business as well as assess their productivity against overall industry averages and "best-performance" studios. It also validates the industry standards for financial management and accounting that both PPA instructors and PPA's Studio Management Services division suggest are vital benchmarks for any studio to understand and work toward in the quest to make a satisfactory income in portrait/wedding photography.

History

There were no industry standards or benchmarks in the mid-1950's when the late Charles H. "Bud" Haynes was struggling to understand the business records of his four-studio operation that served greater Detroit and its suburbs through shopping centers of the J.L. Hudson Company. He took his concerns to the president of a major Detroit accounting firm who explained that while his financial records were adequate for determining tax liabilities, they were not structured to provide the managerial data he needed to monitor business performance and make sound business decisions. He also learned that an important part of collecting financial data according to "managerial accounting" norms was to arrive at several key industry standards or "benchmarks" for financial performance.

Recognizing that such standards would not only help his business, but also help to turn other artists into entrepreneurs, Haynes set out to develop those standards. In the process, he became internationally recognized as a pioneering instructor in the field of photography business management and affectionately regarded as the "Dean of Studio Business Education." In 2005, PPA's Board of Directors honored his service to the industry by establishing the Charles H. "Bud" Haynes Award "in recognition of distinguished service to PPA and its members for encouraging business awareness and practices in the field of professional image-making."

I first met Bud in the late 1970's when my two-year-old, over-leveraged business was in serious trouble. He simplified, demystified, and amplified the fundamentals of business management in terms that I, an English major, could understand. Soon my business was on course, and within a few years Bud had recruited me to teach business management to other photographers.

The Evolution of PPA's Industry Standards

When Bud Haynes sat down with the managerial accountants in Detroit, they developed the following benchmarks that defined important relationships between sales, expenses, and profits for studios of that era:

Total Sales	100%
- Cost of Sales	40%
= Gross Profit	60%
- General Expenses	50%
= Net Profit	10%

What these relationships reflect is that for every dollar (expressed as 100 percent) received from the customer, not more than 40 cents (expressed as 40 percent) of that dollar should be spent to create the product. By determining that the maximum allowable Cost of Sales was 40 percent of Total Sales, this standard established a discipline that helped photographers to price accurately, based on their costs, and it also represented the first in a set of vital business measurements to assist photographers in understanding financial aspects of their businesses.

Here's how the remaining measurements shown above provide a structure that helps photographers to diagnose business productivity: When you subtract the 40 percent Cost of Sales from Total Sales, the result is a Gross Profit of 60 percent. Gross Profit is the amount remaining after products (in this case photographs and their presentations) are produced. If, as the figures above suggest, a business is successful in limiting its General Expenses to 50 cents for every dollar received (expressed as 50 percent of Total Sales), then the business will realize a Net Profit of 10 cents for every dollar received (expressed as 10 percent). Owner's Compensation is included in General Expenses as the owner's reward for day-to-day work in the business; Net Profit is the "return" the business owner earns on the capital invested in the business.

These relationships create a structure which, when adhered to, keep the business in financial balance. When one or more percentages deviate from the desired benchmark, it becomes much easier for the owner to locate what aspect of the business requires managerial attention.

For a photography business owner, monitoring the Cost of Sales percentage, is one of the most important keys to financial success. If you begin to see a trend toward a higher Cost of Sales over a period of months, then you are alerted to look for waste in product processing or the need to raise prices to lower the Cost of Sales percentage. Otherwise, you are jeopardizing your "bottom line" or Net Profit. Likewise, if you see your General Expense percentage exceeding its guideline, it's time to review each expense line item in relation to a monthly expense budget. The "40-50-10" rule helped many businesses achieve financial stability in the 1960's and 1970's.

By the time I began teaching business in the 1980's, both Bud Haynes and I recognized that higher General Expense costs, especially in the areas of salaries, Social Security payments, auto expense, electricity and rent meant that the "40-50-10" model would have to be adjusted, particularly for studios that operated from retail locations, where higher overhead costs were endangering the ability of the businesses to achieve profitability.

In hands-on workshops that both Bud and I taught, we observed that the low overhead possible in some home studio operations still allowed them to achieve profitability at 40 percent Cost of Sales. However, it was very rare to find a business in a retail location that achieved profitability at much more than 30 percent Cost of Sales. So in the 1980's we began recommending different standards for the two business models. These standards are shown on the next page.

Home studio – film model

Total Sales	100%
– Cost of Sales	40%
= Gross Profit	60%
– General Expenses	50%
= Net Profit	10%

Retail location – film model

Total Sales	100%
– Cost of Sales	30%
= Gross Profit	70%
– General Expenses	60%
= Net Profit	10%

When digital photography arrived in the early 1990's it revolutionized all aspects of the photography industry. In spite of the high cost of early digital cameras and printers, enthusiastic advocates of the new technology promised that film savings would offset these higher costs. Early adopters soon recognized the fallacy of this promise: The cost of increased workflow production time ate up any film cost savings; and while equipment costs had dropped considerably by 2000, constant innovations and improvements greatly accelerated the rate at which photographers were reinvesting in cameras, lenses, computers, software, and output devices. Business instructors began to see depreciation figures, which for decades had averaged between 2 and 3 percent for mature businesses, jump to around 6 percent for home-based studios and 9 percent for retail location studios.

During the early 2000's PPA instructors began to suggest that Cost of Sales benchmarks must again be adjusted downward by at least 5 percent to compensate for the increased reinvestment cost that was showing up in General Expenses through Depreciation. The two models shown below represent the suggested industry standards for studios that have either completed the transition to digital or are in the midst of this transition that existed when this survey began:

Home studio – digital model

Total Sales	100%
– Cost of Sales	35%
= Gross Profit	65%
– General Expenses	55%
= Net Profit	10%

Retail location – digital model

Total Sales	100%
– Cost of Sales	25%
= Gross Profit	75%
– General Expenses	65%
= Net Profit	10%

The most dramatic impact of the evolution from the 40-50-10 model, developed by Bud Haynes, to the digital-era models has been in the area of pricing. Several pricing examples involving a typical, fictional studio show the extent of this impact:

In 1995 a home-based studio owner adds up his costs of producing an 11x14 retouched and mounted portrait made on film and calculates those costs to be \$60. To achieve a 40% Cost of Sales, he marks up the 11x14 costs by the 40% COS factor of 2.4 to arrive at a price of \$144.

$$\text{\$60} \times 2.4 = \text{\$144}$$

In 1999 the studio moves to a retail location. Because of the increased overhead costs of the new location, the owner adjusts to the 30% COS model. Now the costs of film, processing and retouching have increased by \$5 to \$65. To achieve a 30% Cost of Sales, he marks up the 11x14 costs by the 30% COS factor of 3.3 to arrive at a price of \$214.50

$$\text{\$65} \times 3.3 = \text{\$214.50}$$

In 2005 the studio has completed the transition to digital capture. To offset the increased cost of digital equipment, the studio owner adjusts to the 25% COS model. When he calculates the additional workflow time charges that the studio now incurs, the Cost of Sales is now \$70, whether the image is printed in house or at a pro lab. He now marks up the 11x14 costs by the 25% COS factor of 4.0 to arrive at a price of \$280.

$$\text{\$70} \times 4 = \text{\$280}$$

Within 10 years the cost of an 11x14 portrait from this fictional studio has almost doubled. Such a significant price increase is not uncommon in the world of business, but for photographers, who are typically motivated by the passion of their business and not by keeping track of its accounts, the effect of business model changes can be devastating if they are not fully understood and reacted to. Often photographers see only the competitive disadvantage of raising prices to offset higher costs, rather than the economic necessity to do so. To ignore these changes, however, is to risk financial peril. Think of the consequences if

the owner had kept his 1995 prices or just made slight adjustments to cover the increased product costs without making the COS mark-up factor adjustments: There would be no additional monies from clients to pay for the higher overhead costs of the new retail location or the increased costs of digital equipment. The owner would most likely see his compensation and net profit erode without knowing why.

For the record, the “line items” included in Cost of Sales Expenses and Capital Expenses (Investments) are as follows:

Cost of Sales Expenses

- Imaging media
- Processing/storage media
- Retouching / print finishing
- Production labor
- Contract labor
- Job-specific costs
- Frames / Accessories / Packaging
- Sales commissions
- Credit card transaction fees
- Online sales transaction fees

Capital Expenses (Investments)

- Real estate
- Leasehold improvements
- Vehicles
- Furnishings / fixtures
- Equipment/props (over \$500)

Taking Financial Benchmarks One Step Further

By the mid-1990’s I recognized that photographers needed additional help in understanding the complexities of General Expenses and their impact on business operations. Typically, an Expenses chart of accounts is kept alphabetically or numerically and includes both the dollar figure of each account line item and the percentage of total sales consumed by that line item. Percentages are a much more useful way of assessing financial productivity than dollar amounts because you can compare percentages to one another and to benchmarks when you cannot do so with dollar totals. The problem I saw, however, was that taken individually,

many of the percentages really didn’t reveal much of managerial significance.

So I began listing General Expenses by “Category Functions” that would be more meaningful to photographers when their percentages were calculated.

The 7 managerial Functions are:

- I. Owner’s Compensation (Salary and Benefits)
- II. Employee Expense (Salary and Benefits)
- III. Outside Services
- IV. Building Overhead
- V. Advertising
- VI. Administrative Costs
- VII. Depreciation

Presenting the sum of expense line item percentages according to “Function” makes the impact of expenses on the total business more understandable. The owner can see what percentage of each dollar goes to Owner’s Compensation; to Employee Expenses; to Outside Services (outsourcing to individuals or firms that provide services that could be done by the owner or employees); the percentage of sales that go to cover building costs; advertising, marketing and promotional costs; administration (items the business would pay even if the owner operated on location with an office at home); and the percentage of sales going to “Investments” that are depreciated.

Following is a listing of the General Expenses line items that are included under each Function:

I. Owner’s Compensation

- Owner’s salary/benefits

II. Employee Expense

- Employee salary/benefits

III. Outside Services

- janitorial, trash, snow removal, lawn service

IV. Building Overhead

- Rent
- Mortgage interest
- Utilities
- Maintenance (building)
- Insurance (building and liability)
- Property tax

V. Advertising**VI. Administrative Costs**

- Postage - general
- Telephone
- Props & camera costs (including camera maintenance, insurance)
- Office expense
- Education expense
- Interest expense
- Auto expense (including auto insurance)
- Accounting/legal (including use taxes/licenses)
- Miscellaneous

VII. Depreciation

After having worked with these groups of “functions” for over 10 years, I have seen their power in helping photographers understand and control their expenses by monitoring the up and down movement of each function percentage. There are some true “aha!” moments when a business owner recognizes that he or she is receiving only 5 cents out of every dollar of sales, while employees are receiving 20 cents; or that depreciation costs have jumped from 2 percent of sales to 20 percent of sales because of digital equipment investment.

Owner’s Compensation + Net Profit: The Key Benchmark

Eventually I recognized that one more step was needed to help photographers understand the true financial situation of their business, and that was to monitor Owner’s Compensation together with Net Profit (Loss) of the business. Too often I would meet with photographers who couldn’t understand why their

personal cash flow was shaky when they had drawn large paychecks from the business. Usually this happens when the owner fails to recognize that the business itself is losing money, partly because the owner is issuing personal compensation checks above and beyond the ability of the business to pay. This factor becomes much more easily understood when monitoring Owner’s Compensation + Net Profit (Loss) together. Here’s what that calculation looks like in the example of a hypothetical photographer drawing a salary of \$80,000, but whose business is carrying a \$60,000 loss:

Calculating Financial Results: Owner’s Compensation + Net Profit (Loss)

Owner’s Compensation	\$80,000
Net Business Profit (Loss)	(\$60,000)
Financial Results	\$20,000

In other words, the owner of this business has achieved a financial result (or net gain) of \$20,000 based on the \$80,000 salary checks he cashed, and the \$60,000 he had to put back in the business to cover its losses. This is a long way from earning a salary of \$80,000!

Another important reason for monitoring Owner’s Compensation + Net Profit (Loss) together is that it allows you to compare the true profitability of one studio to another. The amount that one studio pays the owner(s) versus how much it allocates to profit can vary from studio to studio, making it virtually impossible to draw meaningful comparisons in a survey such as this one.

Therefore, the most useful universal measure of the financial performance of photography studios is Owner’s Compensation + Net Profit (Loss), which is the key benchmark of this survey.

The “Bottom Line”

After many years of working with studios of all kinds and sizes, I concluded that a photography business is well managed when it achieves an Owner’s Compensation + Net Profit of 30% of Gross Sales. After reviewing the results of this survey, however, I believe it is reasonable to adjust that “bottom-line” expectation to

35%. Based on the results of best-performing Home Studios and Retail Studios, it is entirely reasonable to suggest that both models are capable of achieving an Owner's Compensation + Net Profit of 35% of Gross Sales, which means that the owner keeps 35 cents out of every sales dollar if the studio is well managed. Until such time as there are appreciable changes in the financial realities of studio business models, these bottom-line targets are reasonable financial benchmarks for photographers to recognize and emulate.

The Impact of Studio Management Services (SMS)

In 2002, PPA's Board of Directors authorized funding for the development of the Studio Management Services (SMS) division of PPA, the purpose of which was to offer professional business and accounting services to PPA members. Through a staff of Certified Public Accountants and experienced consultants with a track record of operating successful photography businesses, SMS was envisioned as the embodiment of PPA's "Business First" commitment to its membership. Among the services it offers are:

- Financial profitability analysis
- Identification of business strengths and weaknesses
- Business software analysis
- Ongoing analysis and/or production of business financial statements
- Business plan development and marketing analysis
- Preparation of quarterly payroll tax returns and year-end business and personal income tax returns
- Free access to select PPA business programs
- Convenient telephone and web-based support from an experienced studio business consultant
- Marketing materials and price list evaluation
- Image quality review

From the beginning, SMS presented reports to its client studios in managerial formats that allowed them to more easily comprehend the inner-workings of

their businesses as well as recognize areas where improvement could be made through recommended business strategies. All reports made use of the Expense Functions and industry standards for Cost of Sales, Net Profit, General Expenses and Financial Results (Owner's Compensation + Net Profit).

After three years of reviewing financial records of clients and seeing them make improvements when they worked toward recognizable benchmarks for financial performance, Scott Kurkian, PPA's chief financial officer and director of Studio Management Services, spearheaded this survey as a means of accomplishing these important goals:

- Provide participants with a personalized interpretation of their financial indicators;
- Review, refine, and establish financial benchmarks as current industry standards;
- Help other photographers understand the benefits of using these financial indicators to improve their business performance.

How Will This Survey Help My Studio?

You are holding in your hands a document that literally can alter the course of your business. From the various categories present you can:

- 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 the areas of your business that are draining profit from the bottom line.
- Learn how to set up your financial records according to managerial standards that will allow you to make informed decisions about your business.
- Achieve the confidence that comes from knowing exactly how your business is performing.

Photographers who embrace these benchmarks with the same enthusiasm that they approach their art can be confident that this survey will provide them with real-world guidance backed by thorough research and validation.

Executive Summary

- ▶ Given the many hours that studio owners typically work each year, the average Owner's Compensation and Net Profit revealed by the survey is disappointing:
 - » Home-based Studios, with an average Gross Sales of \$129,394, achieved an annual Owner's Compensation and Net Profit of \$32,977.
 - » Retail-location Studios, with average Gross Sales of \$238,689—more than \$100,000 over their Home Studio counterparts—achieved an annual Owner's Compensation and Net Profit of \$46,036
- ▶ Home Studios in the survey clearly outperformed Retail Studios in their ability to keep a higher percentage of each sales dollar for the owner(s).
 - » Home Studio owners earned 25.5% of Gross Sales or 25.5 cents for each sales dollar.
 - » By comparison, Retail Studio owners earned only 19.3% of Gross Sales or 19.3 cents for each sales dollar.
- ▶ While the average Home Studios and Retail Studios are underperforming their recommended profit benchmarks by between 10-5%, the “best-performing studios” in both categories of the survey are exceeding the same benchmarks and doing quite well with their financial results.
 - » Best-performing Home-based Studios, with an average Gross Sales of \$200,097, achieved an Owner's Compensation and Net Profit of \$81,527. This represents 40.7% of Gross Sales, which means they keep 40.7 cents of each sales dollar.
 - » Best-performing Retail-location Studios, with an average Gross Sales of \$278,159, achieved an Owner's Compensation and Net Profit of \$102,789. This represents 37% of Gross Sales, which means they keep 37 cents of each sales dollar.
- ▶ When analyzing the disturbing underperformance of the overall group of Retail Studios, as compared to the success of the best-performing group, two key factors stand out:
 - » Average Retail Studios are not reacting to the higher General Expenses of retail spaces by raising their prices to keep their Cost of Sales in line with recommended benchmarks. Best-performing Retail Studios have made these adjustments, and it is paying off on the bottom line. Studio owners who do not understand this relationship and react to it will continue to suffer from mediocre financial performance.
 - » Best-performing Retail Studios are doing a much better job of controlling their overall General Expenses at 36.4% of Gross Sales. The higher General Expenses (48.7%) combined with the higher Cost of Sales experienced by the average Retail Studios are key to their poor bottom-line performance.
- ▶ Best-performing studios in both categories spend much less on employees (administrative, sales, and production) than their average counterparts. This is a huge financial advantage for the top performers. For example: best-performing Home Studios, which keep almost 41 cents of each sales dollar, have both a low Cost of Sales (27.4%) and a very low Total Labor percentage (4.6%), which is considerably less than that of all Home Studios (33.3% and 8.3%). Owners of best-performing Home Studios receive 40.7% of each sales dollar compared to only 4.6% for employees; while owners of average Retail Studios pay their employees almost as much as they pay themselves (15.9% compared to 19.3%).
- ▶ In looking at financial performance according to years in business, the data revealed a classic lesson concerning the need to build sales volume as early as possible in the life of a new business. The survey made it clear that certain levels of sales volume are necessary for the owner to derive a reasonable profit. Based on the results of best-performing studios, the survey suggests that sales of \$150,000 for Home-based Studios and \$250,000 for Retail-location Studios can produce predictable bottom lines of \$52,500 and \$75,000 respectively if the following benchmarks are achieved:

Suggested Benchmarks for Home-Based Studios

Sales Volume Target	\$150,000
COST OF SALES Target	35%
TOTAL GENERAL EXPENSES Target	30%
(excluding Owner's Compensation)	
OWNER'S COMPENSATION + NET PROFIT Target	35% or \$52,500

Suggested Benchmarks for Retail-Location Studios

Sales Volume Target	\$250,000
COST OF SALES Target	25%
TOTAL GENERAL EXPENSES Target	40%
(excluding Owner's Compensation)	
OWNER'S COMPENSATION + NET PROFIT Target	35% or \$87,500

▶ Other interesting facts gleaned from the survey:

- » Depreciation expense has more than doubled for studios that have made the transition from film to digital capture. This appears to be a trend that is likely to persist, suggesting that digital photography has evolved into a “technology-based art form” that is likely to require more frequent reinvestment than was the case for film-based photography.
- » In comparing sales and profits by business type (weddings-only businesses, studios with a mixture of weddings and portraits, and portraits-only studios), the survey confirmed anecdotal evidence that wedding photography margins are being compromised by the pressures of an increasingly competitive market: Weddings-only studios registered a much higher Cost of Sales than their counterparts who do portraits only or offer a mixture of portrait and wedding services.

- » A surprising finding showed that couple-owned businesses achieved both higher volume and better profits than those run by individuals—even if the business had employees on board. In fact, studios run by individuals lag far behind studios run by dual-owners, defined as “a couple or partners in which both work full-time, or at least put in a comparable number of work hours.”
- » The location of a studio in an urban, suburban or rural location does not have a marked effect on the financial success of photography businesses. This flies in the face of conventional wisdom suggesting that rural businesses might have a harder time attracting clients than their counterparts located in more densely populated cities and suburbs.
- » Only 12 of the survey participants reported that they were “film only” studios, and these studios showed higher Cost of Sales than digital-only and digital/film operations. Since production labor was included in all Cost of Sales figures calculated in the survey, this result suggests that recent advances in digital technology and workflow streamlining have begun to have a positive impact on workflow costs.
- » The survey also generated data supporting the opinion of many industry leaders who contend that presenting previews by projection, rather than as paper proofs, is a far more profitable strategy. Studios using projection only had the highest Owner's Compensation + Net Profit in both sales dollars and as a percentage of sales across the board. In fact, they were almost twice as profitable as the 44 studios still using paper previews only.

About the Survey

Survey Participants

To participate in the survey photographers were required to have achieved a minimum of \$25,000 in 2004 gross sales, with 50 percent of their income derived from portraiture and/or weddings, and have a completed 2004 business income tax return. Some of the respondents were client studios of PPA’s Studio Management Services division and others simply responded to PPA’s publicity about the survey.

Scope of Study and Survey Method

PPA fully reviewed each set of 2004 year-end financial records received from the 180 respondents who met the above criteria. For some benchmark surveys this one might seem to represent a small sample; but for the photography industry it represents a breakthrough. Previous surveys have included more respondents, but they were based only on the participants’ un-audited responses to questions that assumed a higher level of financial sophistication than photographers and most small business people typically possess.

For this survey, all business records were reviewed by an SMS accountant, and where areas either were incomplete or included figures that raised “red flags,” the photographer was contacted and interviewed about the items in question until the accountant was certain that all figures were as accurate as possible. These data were then compiled in managerial format so that meaningful comparisons could be made in the following areas:

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Table 1: All Home-Based Studios Compared to All Retail-Location Studios

Type of Business Location	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
All Home Locations	69	\$129,394	\$32,977	25.5	4.3	5.1	6.1	16.5	9.2	41.1	33.3
All Retail Studios	111	\$238,689	\$46,036	19.7	10.1	11.1	6.5	14.8	6.2	48.7	32.0

Observations

- ▶ Home Studios show a COS average of 33.3%, slightly better than the recommended industry standard of 35%.
- ▶ Retail Studios have a COS average of 32%, which significantly underperforms the recommended benchmark of 25%.
- ▶ Neither model achieves the recommended target for Owner's Compensation + Net Profit. Home Studios are under the benchmark of 35% by 9.5% and Retail Studios are under the recommended 35% by 15.7%.
- ▶ Home Studios spend only a small portion of each sales dollar (4.3%) for Employees in Sales/Administration; however Retail Studios spend 10.1% on these employees.
- ▶ Home Studios clearly benefit from the lower Building Expense of a home based business (5.1%), while Retail Studios spend over twice that amount (11.1%).
- ▶ Both models illustrate the trend toward higher Depreciation costs (9.2% for Home Studios and 6.2% for Retail Studios). Compared to the 2%-3% that was typical of studios prior to the advent of digital imaging, these results underscore the necessity for both models to increase revenue (by raising prices and/or selling more to each existing client) to offset these increased investment costs.
- ▶ Industry experience suggests that both models might have to increase Marketing Expense by several percentage points (or redirect the current marketing budget) in order to raise revenues either through increased session numbers or by targeting clients willing to purchase at a higher level.

Implications for Home-Based Studios

- ▶ Achieving the recommended benchmark of 35% for Owner's Compensation + Net Profit, which this survey reveals is a reasonable target, is not likely to happen through cost reductions alone. While Administrative Expense might seem high at 16.5%, this is typical of photography businesses at this level of sales. Other General Expenses categories also fall within expected levels.
- ▶ Two strategies hold the most promise for Home Studios in achieving higher profits: 1. Increase business volume (numbers of sessions) and/or 2. Increase revenues through price increases and/or achieving higher sales from each client served.

Implications for Retail-Location Studios

- ▶ While Retail Studios are posting much higher total revenues than Home Studios (\$238,689 compared to \$129,394) their Owner's Compensation + Net Profit percentage fails to keep pace with that of Home Studios (19.3% compared to 25.5%). The culprits here are much higher Building Expense and Employee Expense that are a natural consequence of operating from a retail location.
- ▶ The Cost of Sales percentage average of 32% is 7% higher than the recommended 25% benchmark, so this is the most obvious place to begin implementing change. If these businesses were to reduce the COS percentage to 25%—through increased prices or increased sales to existing clients, or through production efficiencies—there would be a bottom-line swing of 7%. The Compensation + Net Profit % would improve to 26.3%, considerably closer to the 35% target. Once this is accomplished, a small increase in number of annual sessions is likely to bring the business into balance. Addressing the COS issue first will amplify all other strategies designed to increase revenue.

Table 2: All Home-Based Studios Compared to Best-Performing Home-Based Studios

Type of Business Location	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
All Home Locations	69	\$129,394	\$32,977	25.5	4.3	5.1	6.1	16.5	9.2	41.1	33.3
Best Performing Home-Based Studios	15	\$200,097	\$81,527	40.7	4.0	3.1	4.0	11.8	8.9	31.8	27.4

Observations

- ▶ This table and the next reveal the very good news that best-performing studios in this survey are doing very well indeed in making the most of their respective business models through good management practices. This further validates what SMS staff and PPA business instructors know to be true anecdotally: A variety of viable business models are now emerging from the disarray that accompanied the transition from film to digital businesses. The experience of these studios is helping to point the way for the entire industry.
- ▶ Best-performing Home Studios are enjoying an Owner's Compensation + Net Profit percentage of 40.7%, which is an impressive 5.7% higher than the 35% benchmark. The reasons for these excellent results are best understood when compared to the "All Home Studios" category in the following key areas:
 - » **Sales Volume:** The difference between the \$200,079 level of sales achieved by the best-performing Home Studios and all Home Studios is the foundation upon which their overall success is built. The higher level of sales automatically reduces the ratio between sales and all the most significant benchmarks: Employee Expense, Building Expense, Marketing Expense, Administrative Expense, Depreciation Expense and Cost of Sales.
 - » **Cost of Sales:** The top studios in this category clearly are monitoring and managing their Cost of Sales to be performing almost 6 percentage points better than all Home Studios and almost 8 percentage points better than

the recommended target of 35%. This is a strong indicator that they are controlling costs, pricing at a level that assures profitability, while at the same time doing what is necessary through product excellence and strong customer service to build an effective client referral system. This conclusion is further strengthened by the relatively low percentage of Marketing Expense (only 4%) in relation to the level of Total Sales.

- » **Employees:** The fact that best performers are spending a low 4.0% of sales on Employee Expense indicates that these studios have succeeded in maximizing workflow and directing studio operations with only minimal help. Chances are a spouse or other family member may be helping out; but keeping these costs low is a major contributor to the health of the business bottom line.

Implications for Home-Based Studios

This table should serve as a wake-up call for home-based businesses that can't wait to move from home to a retail location: Don't move too fast! Think long and hard before leaving the sheltered environment of a home studio, particularly when it is earning a reasonable profit. Clearly there often are some compelling reasons to make the move to a retail space. But before the move is made, photographers should do realistic, detailed business planning to assure that the new business model will be viable.

Table 3: All Retail-Location Studios Compared to Best-Performing Retail-Location Studios

Type of Business Location	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
All Retail Locations	111	\$238,689	\$46,036	19.3	10.1	11.1	6.5	14.8	6.2	48.7	32.0
Best Performing Retail Locations	20	\$278,159	\$102,789	37.0	6.9	7.9	5.1	12.2	4.3	36.4	26.6

Observations

- ▶ The results of the best-performing Retail Studios speak volumes about the need for and rewards of careful Retail Studio management. The most dramatic proof of this is found in the 17.7 percentage-point gap between best performers and all Retail Studios in the most critical of all results: Owner's Compensation + Net Profit. While all Retail Studios are languishing at 19.3%—far below the benchmark of 35%—the best performers have blown past that milestone to achieve a robust 37.0% bottom line.
- ▶ Another important percentage result is that of Cost of Sales: Best performers are almost on target with a 26.6% COS percentage against the recommended 25%. This is one of the few areas in which best performers can stand a little improvement. While seeking to improve only 1.6% might not sound like it's worth much effort, hitting that target actually would translate into an additional \$4,451 in the owner's pocket if all other costs remain the same. In businesses this size, just a slight price adjustment can bring this percentage into balance, which results in a tidy profit increase.
- ▶ The Employee Expense category is worth reviewing, as it confirms typical industry experience that it is hard to operate a retail location without having what amounts to full-time help. The difference between the two categories shown here is that the higher grossing best performers pay only 6.9% of sales for employees, whereas all Retail Studios pay a steep 10.1% of sales. This

percentage also underscores the reality of how much Retail Studios can afford to pay to employees without taking away from the owner's bottom line or increasing revenue in order to keep the business in financial balance. With 10.1% of their total sales of \$238,689 being spent for Employee Expense, all Retail Studios in the survey are spending an average of \$24,108 for non-production employees working in Sales/Administration. Best-performing Retail Studios, however, are spending only \$19,193 for their non-production employees, and doing so at a higher level of revenue. This result confirms that the top studios are making the most of their employees, and most likely they have mastered good selling techniques.

- ▶ Although the best performers are grossing only \$39,470 more than studios in the all Retail Studios category, the difference helps to lower, at least somewhat, the ratio between Total Sales and these important General Expenses benchmarks: Building, Marketing, Administration, and Depreciation. These small incremental reductions add to the outstanding results of the best performers.

Implications for Retail-Location Studios

- ▶ This survey reveals an alarming gap between all Retail Studios and the best performers, but it also reinforces the notion that attention to financial targets is both vital and rewarding.

Table 4: Sales Volume Comparison — All Home-Based Studios

Home-Based Studios by Sales Volume	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
\$0-\$99,999	35	\$61,748	\$10,620	17.2	0.5	5.2	9.4	24.4	12.2	51.8	31.0
\$100,000-249,000	27	\$155,901	\$48,453	31.1	4.6	4.5	4.4	15.2	9.2	38.0	30.9
\$250,000 and up	7	\$365,386	\$85,068	23.3	6.8	5.9	6.1	12.0	6.7	37.3	39.2

Observations

- ▶ **\$0-\$99,999 Category** — With total average sales of \$61,748, these businesses are far from mature. Yet it is heartening to see that even at this modest level of sales, Owner's Compensation + Net Profit is already in the black, registering an encouraging 17.2% of Total Sales. This is due largely to the fact that Building Expense is a moderate 5.2 %, and Cost of Sales, at 31.0%, is out performing the 35% target. The other General Expenses percentages may appear to be high, but this is to be expected at such a low level of sales. With only .5% of Total Sales being spent on Employees in Sales/Administration, owners in this category are working alone or perhaps with the help of volunteer labor from a family member, which is typical (and appropriate) at this stage of business development.
- ▶ **\$100,000-\$249,999 Category** — With average sales at \$155,901, these businesses can be characterized as fairly well established. This conclusion is supported by the 31.1% Owner's Compensation + Net Profit that is closing in on the recommended 35% benchmark. At more than double the sales of the previous category, the only General Expenses category that is rising is the Employee Expense (Sales/Administration) area. It is not surprising that these businesses feel the need of assistance because of the increased level of sales.

As expected, the other General Expenses category percentages are falling in place due to the higher level of Total Sales.

- ▶ **\$250,00 and up Category** — As the smallest sample in the study, it is difficult to draw definitive conclusions in this category. It is interesting to see that the Total Sales average jumps to a robust \$365,386. As such, and because Building Expense remains at a low 5.9% of each sales dollar, you might expect to see a more profitable bottom line. Yet the figure for Owner's Compensation + Net Profit is a disappointing 23.3%, lagging far behind the target of 35%. A significant cause for this lower-than-expected performance is the high Cost of Sales percentage average of 39.2%—4.2% higher than the recommended 35%. This points clearly to the need for these studios to control production costs, including production labor. When a well-established business enjoys good sales but posts a high Cost of Sales, the culprit often is out-of-control in-house production labor, an issue that we will examine --further in Table 8 (page 17).

Table 5: Sales Volume Comparison — All Retail-Studio Locations

Retail-Studio Locations by Sales Volume	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
\$0-\$99,999	17	\$64,489	\$3,037	4.7	1.4	15.5	12.1	25.7	10.0	64.6	30.6
\$100,000-\$249,000	56	\$161,675	\$23,444	14.5	8.3	12.6	6.6	18.5	7.3	63.5	32.2
\$250,000 and up	38	\$430,115	\$98,565	22.9	11.7	10.0	6.1	12.1	5.4	45.1	32.0

Observations

- \$0-\$99,999 Category** — These results confirm the direct impact that increased expenses have on the bottom line of non-mature businesses that choose to operate at retail locations. At \$64,489, this category achieves an average sales volume that is only slightly higher than the \$61,648 of the Home Studios in Table 6. But Owner's Compensation + Net Profit is only 4.7% of sales, compared to the 17.2% results for Home Studios. In order to offset higher expenses these businesses will need to quickly generate additional sales volume. Attention also must be paid to adjusting the business to the lower 25% Cost of Sales target. In an immature business tied to such high General Expenses, this nearly always means hiking prices and improving sales technique, along with increasing session numbers. And with 12.1% of sales being spent on marketing (appropriate for a newer business), marketing effectiveness also must be monitored.
- \$100,000-\$249,999 Category** — This category is a cautionary tale: It shows that even an increase of almost \$100,000 in income over the previous category cannot bring bottom-line profits close to the 35% benchmark when Cost of Sales is out of control. At 32.2% COS, these businesses are not even close to the 25% target. Were COS to hit this benchmark, then Owner's

Compensation + Net Profit would jump to around 22%. The increased Employee Expense seen in this category, plus the high COS figure suggest that these businesses are seeing many clients but not maximizing sales through appropriate pricing and improved sales techniques.

- \$250,00 and up Category** — With an impressive \$430,115 in sales, these studios are squandering the strong potential of a profitable return for the owner. By doing nothing more than bringing Cost of Sales into balance at a 25% level, instead of the bloated 32.0% performance seen here, the owner would receive a raise of \$61,445! The bottom line for a photographer running a business with results similar to this category would be an Owner's Compensation + Net Profit jump from \$98,565 to \$160,010! If this seems like smoke and mirrors, look at what the best performers are doing at only \$278,159 in average sales (see Table 3). Their average Compensation + Net Profit (\$102,789) is already higher than the studios in this category. Best performers are doing nearly a third less work for better wages. What a difference good management and attention to benchmarks can make!

Table 6: Years in Business Comparison — All Home-Based Studios

Home-Based Studios by Years in Business	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
A 0 - 5	34	\$109,552	\$28,390	25.9	3.7	3.4	7.3	17.5	12.9	44.8	29.2
B 6 - 10	10	\$132,352	\$30,537	23.1	2.6	6.7	5.7	16.4	5.9	37.3	39.5
C 11 - 19	19	\$158,984	\$41,207	25.9	4.7	6.0	4.3	15.2	6.7	36.9	37.2
D 20 - up	6	\$143,208	\$36,975	25.8	7.6	6.6	7.3	17.2	7.3	46.0	28.2
From Table 2: Best-Performing Home Studios	15	\$200,097	\$81,527	40.7	4.0	3.1	4.0	11.8	8.9	31.8	27.4

Observations:

- ▶ This financial breakdown, according to years in business, is a classic lesson concerning the importance of sales volume in building financial success—at any point in a studio's lifetime. The best financial bottom line of all the studios shown here is only \$41,207 (Category C). The average of best-performing Home Studios (see Table 2) is almost twice as much, at \$81,527. It's easy to see why: Best performers average just over \$200,000 in Total Sales, yet their General Expenses are only 31.8%. None in categories A through D comes close to that outstanding performance.
- ▶ Not surprisingly none of the categories here reaches the ideal Owner's Compensation + Net Profit percentage of 35%. They are closely bunched between 23.1% to 25.9%. Interestingly, the best bottom-line percentage of 25.9% occurs in studios that are less than five-years old, largely because they remained below the recommended benchmark of 35% COS. These studios show great COS productivity at only 29.2%. While older studios may have increased their Owner's Compensation + Net Profit dollars, their overall productivity never really gets into high gear after their formative years.
 - » Building Expense is an issue in Categories B, C and D, nearly doubling in comparison to Category A, even though Total Sales did not grow sufficiently to justify such increases.

- » In Categories B and C, Cost of Sales rises above the 35% recommended benchmark, and this serves to restrain profits.
- » Category C has the best sales in the group. Yet Owner's Compensation + Net Profit under-perform at 25.9%, substantially below the recommended benchmark of 35%.
- ▶ The failure of the studios in Categories B, C and D to achieve the higher level of Owner's Compensation + Net Profit that you would hope to see in studios that are in business longer than five years is primarily a result of these studios not achieving a sufficient level of sales that will allow them to thrive. This is clearly evident in financial comparisons between these studios and the best-performing Home Studios. By achieving sales of over \$200,000, while maintaining control over vital expense areas such as Cost of Sales, Employee Expense, Building Expense and Administrative Expense, the top studios are assuring a healthy bottom line.
- ▶ The moral of the story shown here is that when you decide to open a business, get off to a good start with robust sales volume and profitably priced products. Do whatever it takes to get clients in the door; maintain steady growth; and improve sales techniques. Most importantly, keep your eye on the important financial benchmarks that can help your business stay on track over the long haul.

Table 7: Years in Business Comparison — All Retail-Location Studios

Retail-Location Studios by Years in Business	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
A 0 - 5	30	\$178,186	\$20,982	11.8	10.7	11.9	7.7	16.6	8.8	55.8	32.4
B 6 - 10	20	\$166,914	\$34,952	20.9	8.0	11.6	6.8	16.6	5.8	48.8	48.8
C 11 - 19	30	\$296,919	\$62,664	21.1	10.8	10.6	6.6	13.1	5.9	47.0	31.8
D 20 - up	31	\$287,195	\$61,340	21.4	9.7	10.9	5.6	14.8	5.2	46.1	32.5
From Table 3: Best-Performing Retail Location	20	\$278,159	\$102,789	370.0	6.9	7.9	5.1	12.2	4.3	36.4	26.6

Observations

- ▶ The sales volume problem of all Home Studios shown in Table 6 is mirrored here by Location Studios in categories A and B presented in Table 7 above. And the stakes are even greater for these studios, as their higher expenses are causing their Owner's Compensation + Net Profit percentage to be even farther off target than their Home Studio counterparts.
- ▶ When you consider that the best-performing Retail Studios have a General Expenses average of only 36.4% (see Table 3), the studios shown in categories A through D have a huge amount of work to do to get back on track. This is underscored by the fact that Category C (11 to 19 years in business) and Category D (20 years and up in business) actually have higher gross sales than the best performers, who stand at \$278,159.
- ▶ The only remedy for this poor level of financial performance is to examine the benchmarks of the best-performing Retail Studios and implement multiple remedial strategies. The most important step would be to get Cost of Sales percentages into line at 25% of Sales as soon as possible. This can be accomplished by cutting out any production waste, raising prices, and/or increasing sales of each client served. Getting COS to the 25% recommended benchmark would cause very significant changes in each studio's bottom line: In Category A, Owner's Compensation + Net Profit would increase to \$34,167; Category B would increase to \$43,789; Category C would

increase to \$82,854; and Category D would increase to \$82,879. These are the types of increases that give businesses a huge stability boost, as these new higher standards become the foundation upon which future growth will be built.

- ▶ Once COS is in line, all categories of General Expenses should be scrutinized for savings. Again, use the benchmarks set by the best-performing Retail Studios to determine where changes should be made. Don't expect these changes to be dramatic—perhaps shaving only a few percentage points in each category—except for marketing, which is needed to help spur future growth. Don't rule out looking for a less expensive retail space; this should always be considered when looking to cut costs. Administrative Expense is another area where expenditures should be examined. Finally, resist the temptation to spend more on helpers, and resolve to make do with existing equipment. This will fire up profitability.
- ▶ It should be noted that in Category D of both Home Studios and Retail Studios (20 years or more in business), revenues have fallen off, with a corresponding dollar loss in Owner's Compensation + Net Profit. This is an indicator that these older businesses might have fallen victim to the "Old-Age" stage of the Business Cycle, which suggests that if a business doesn't look to the future and constantly reinvent itself, it will slowly wither and die.

Table 8: Impact of Total Labor Costs on Financial Performance

This survey also studied another very significant measure of financial performance: the percentage of Total Sales that is spent on “Total Labor.” The Total Labor measurement includes any employee expenses or contract labor, whether for production (a Cost of Sales Expense) or Sales and Administrative help (a General Expenses category). It does not include any compensation paid to the owner.

It is helpful to study this expense category in relation to Total Sales dollars, Owner’s Compensation + Net Profit, and Cost of Sales. Doing so forces you to evaluate the effectiveness of the people who work for the business. Human nature can cause almost anyone to make sentimental decisions about unproductive employees. Some become friends and some desperately need the job, which makes it hard to let them go. Concern that employee(s) are not working out often begins with a vague apprehension—usually when the business is not earning a good profit. This concern is hard to pin down or verify without financial benchmarks that help alert owners to true employee expenditure warning signs. Having an objective knowledge of where money is going is an important step toward evaluating the contribution of employees with reason and not emotion.

Observations

- ▶ Home Studios — It is no coincidence that best-performing Home Studios, which keep almost 41 cents of each sales dollar, have both a low Cost of Sales (27.4%) and a very low Total Labor percentage (4.6%), which is considerably less than that of all Home Studios (8.3%). Also of interest is their ratio of Owner’s Compensation + Net Profit to costs for Total Labor: a stunning 10:1 for best performers. Owners here receive 40.7% of each sales dollar compared to only 4.6% for employees!
- ▶ Location Studios — Best performers here have a 26% COS compared to the 32.% for all Location Studios; and best-performing Location Studios spend 11.9% for Total Labor compared to a unacceptably high 15.9% for all

Location Studios. Owners in the latter category, in fact, pay their employees a most as much as they themselves receive (15.9% compared to 19.3%). Best performers do much better with an almost 3:1 ratio (37% versus 11.9%).

Table 8-A: Home-Based Studios Comparison

Type of Business Location	Total Sales \$\$	Owner’s Comp. + Net Profit \$\$	Owner’s Comp. + Net Profit %	Total Labor: Sales/Admin + COS Labor	Cost of Sales %
All Home Studios	\$129,394	\$32,977	25.5	8.3	33.3
Best-Performing Home Studios	\$200,097	\$81,527	40.7	4.6	27.4

Table 8-B: Retail-Location Studios Comparison

Type of Business Location	Total Sales \$\$	Owner’s Comp. + Net Profit \$\$	Owner’s Comp. + Net Profit %	Total Labor: Sales/Admin + COS Labor	Cost of Sales %
All Retail Studios	\$238,689	\$46,036	19.3	15.9	32.0
Best-Performing Retail Locations	\$278,159	\$102,789	37.0	11.9	26.6

Clearly the ability of both categories of best performers to keep Total Labor Costs in check is a huge factor in their financial success. So how do the best performers accomplish these savings when their counterparts are struggling with bloated expenses? Three factors usually are in play: 1. Best performers typically hire only the help they need, when they need it, and they don’t pay huge salaries. 2. Often they outsource as much of their production as they can to a professional lab. 3. They keep a close eye on financial benchmarks to assure they are getting the maximum possible benefit from employees and the maximum possible gain for their own Compensation + Net Profit.

Table 9/A: Comparison by Business Type — All Studios: Portrait & Weddings / Portraits Only / Weddings Only

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Port./Weddings	72	\$184,809	\$40,153	21.7	7.2	8.7	5.2	14.4	7.5	43.0	35.2
Portraits only	85	\$226,582	\$45,684	20.2	10.6	11.1	6.9	21.1	6.0	50.1	29.7
Weddings only	23	\$124,213	\$26,576	21.4	2.0	3.2	8.4	17.4	11.4	42.4	36.2

Table 9/B: Comparison by Business Type — Home Studios: Portrait & Weddings / Portraits Only / Weddings Only

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Port./Weddings	31	\$149,017	\$42,019	28.2	5.7	4.9	4.7	14.5	7.9	37.7	34.0
Portraits only	19	\$101,618	\$24,614	24.2	4.0	8.7	5.4	21.1	8.7	47.8	28.0
Weddings only	19	\$125,156	\$26,587	21.2	1.8	2.3	9.2	16.8	12.2	42.3	36.5

Table 9/C: Comparison by Business Type — Retail Studios: Portrait & Weddings / Portraits Only / Weddings Only

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Port./Weddings	41	\$211,872	\$38,742	18.3	8.0	10.7	5.4	14.4	7.3	45.8	35.9
Portraits only	66	\$262,557	\$51,750	19.7	11.3	11.4	7.1	14.9	5.7	50.3	30.0
Weddings only	4	\$119,737	\$26,523	22.2	3.1	7.5	4.6	20.5	7.4	43.1	34.8

Portraits and weddings continue to be the bedrock of home-based or retail-location studios that advertise to the general public, therefore the financial results of these studios, by business type, are of interest.

Observations

- ▶ Of the 180 studios in the survey, only 23 reported their status as weddings only, and only 4 of those studios were Retail Studios.
- ▶ The weddings-only studios reported the lowest sales volume of the three categories, suggesting that weddings continue to be an easy entry point for photographers, especially those who wish to work from their homes.
- ▶ One of the most interesting comparisons is that of Cost of Sales between all “portraits only” businesses at 29.7% COS and their counterparts who offer

wedding photography. All “weddings only” studios registered a much higher 36.2% Cost of Sales, while all studios offering both portraits and weddings were close behind at 35.2% COS. This confirms anecdotal evidence that wedding photography margins are being compromised by pressures of an increasingly competitive market.

- ▶ As Tables 9A, 9B and 9C depict, there is no category in this comparison that achieves outstanding performance in Owner’s Compensation + Net Profit as a percentage of sales. The best-performing category is Home Studios that offer both portraits and weddings at a bottom line of 28.2%, which is well below the 35% recommended benchmark.
- ▶ Retail studios in all business-type categories must build revenues and rein in costs at all levels if they are to achieve ideal profitability.

Table 10/A: Comparison by Business Location — All Studios: Rural / Suburban / Urban

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Rural	43	\$190,583	\$36,712	19.3	8.3	11.3	6.2	14.4	7.2	47.3	33.4
Suburban	102	\$194,438	\$42,393	21.8	8.4	9.4	6.7	15.6	7.1	47.1	31.0
Urban	35	\$211,283	\$42,363	20.1	9.4	8.1	5.8	15.4	6.6	45.3	34.6

Table 10/B: Comparison by Business Location — Home Studios: Rural / Suburban / Urban

Home-Based Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Rural	13	\$135,197	\$36,777	27.2	4.3	6.0	3.4	15.9	7.6	37.2	35.6
Suburban	44	\$127,586	\$32,425	25.4	3.9	4.9	6.4	16.9	10.2	42.4	32.2
Urban	12	\$129,738	\$30,885	23.8	5.3	4.5	7.8	15.8	7.8	41.2	35.0

Table 10/C: Comparison by Business Location — Retail Studios: Rural / Suburban / Urban

Retail Location Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Rural	30	\$214,583	\$36,684	17.1	9.4	12.7	7.0	13.9	7.1	50.1	32.8
Suburban	58	\$245,153	\$49,955	20.4	10.2	11.2	6.8	15.0	5.8	49.0	30.6
Urban	23	\$253,829	\$48,351	19.1	10.5	9.1	5.3	15.3	6.3	46.4	34.5

The goal of viewing the financial results of survey participants according to business location—rural, suburban, and urban—was to see how location might affect the financial health of consumer-based photography businesses.

Observations

- ▶ The largest group of studios—102—was located in the suburbs, a likely scenario for businesses that serve the needs of growing families.
- ▶ Conventional wisdom often holds that rural businesses have a harder time attracting clients than those in areas of their more densely populated counterparts located in cities and the suburbs. In all three categories, the survey shows that studios in rural areas are not at the huge disadvantage that conventional wisdom suggests.

- ▶ General Expenses for each category do not vary as much as might be expected.
- ▶ All categories would gain financial ground by getting their Cost of Sales down to suggested benchmarks.
- ▶ Once again Home Studios outperform Retail Studios, strongly suggesting that the type of business model (Home vs. Retail) is a far more important factor to the success of contemporary studios than geographic location. Rural home studios show an Owner's Compensation + Net Profit percentage of 27.2% compared to the much weaker 20.4% and 19.1% of Retail Studios in suburban and urban environments.

Table II/A: Comparison by Ownership Status — All Studios: Couples Versus Individual Ownership

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Couple	94	\$225,731	\$54,997	24.4	7.4	8.2	5.8	15.4	6.6	43.4	32.2
Individual	86	\$165,162	\$25,763	15.6	10.3	11.6	7.3	15.1	7.6	51.9	32.4

Table II/B: Comparison by Ownership Status — Home Studios: Couples Versus Individual Ownership

Home-Based Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Couple	32	\$162,206	\$47,700	29.6	3.9	3.7	5.4	15.8	10.6	39.3	31.0
Individual	37	\$101,882	\$20,243	19.9	4.8	7.0	7.0	17.5	7.4	43.6	36.5

Table II/C: Comparison by Ownership Status — Retail Studios: Couples Versus Individual Ownership

Retail Location Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Couple	62	\$259,034	\$58,763	22.7	8.6	9.7	5.9	15.2	5.3	44.7	32.6
Individual	49	\$212,945	\$29,932	14.1	12.3	13.2	7.5	14.2	7.7	54.9	30.9

Anyone who has worn the many hats of a single-owner photographic business has surely wondered whether having a partner would help the business to be more successful. To shed light on this issue, the study looked at studios that reported their ownership model as an individual or a couple, with the dual owner model defined as “a couple or partners in which both work full-time, or at least put in a comparable number of work hours.”

Observations

- ▶ The most obvious indicators that two-heads-might-be-better-than-one in the photography business is the higher volume reported by couple-owned businesses across the board, as well as the most important measurement of all: Owner's Compensation + Net Profit. Studios run by individuals earn far less than the recommended bottom-line benchmarks; they lag far behind studios run by couples.
- ▶ Even when you consider that the couple-run business has two mouths to feed, couples come out ahead in bottom line dollars in the “all studios” and “home studios” categories.
- ▶ Even Total General Expenses for individual studios owners are higher than those for couples. Particularly surprising is the Marketing Expense category. Conventional wisdom suggests that two owners would allow more energy (and expense) to be directed toward marketing. However, individual owners are outspending their dual-owner counterparts in marketing.
- ▶ Individual owners in Retail Studios are the most vulnerable: Their ratio of Employee Expense to Owner's Compensation + Net Profit is almost level (12.3% for employees compared to 14.1% for the owner).

Table 12/A: Comparison by Image-Capture Model — All Studios: Both Film & Digital / Digital Only / Film Only

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Film & Digital	26	\$179,236	\$28,065	15.7	10.5	10.4	4.4	13.7	5.6	44.6	39.7
Digital Only	142	\$201,484	\$44,312	22.0	8.4	9.5	6.7	15.5	7.5	47.5	30.4
Film Only	12	\$179,314	\$30,286	16.9	7.6	8.9	6.3	15.5	3.4	41.7	41.4

Table 12/B: Comparison by Image-Capture Model — Home Studios: Both Film & Digital / Digital Only / Film Only

Home-Based Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Film & Digital	11	\$163,305	\$42,355	25.9	7.3	6.4	3.3	12.9	4.9	34.8	39.2
Digital Only	54	\$124,318	\$31,702	25.5	3.7	4.5	6.7	17.4	10.8	43.1	31.3
Film Only	4	\$104,675	\$24,405	23.3	0	8.7	7.0	17.5	3.0	36.2	40.5

Table 12/C: Comparison by Image-Capture Model — Retail Studios: Both Film & Digital / Digital Only / Film Only

Retail Location Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Film & Digital	15	\$190,918	\$17,586	9.2	12.5	13.0	5.1	14.1	6.1	50.7	40.0
Digital Only	88	\$248,836	\$52,050	20.9	9.8	11.0	6.7	14.9	6.5	48.9	30.2
Film Only	8	\$216,633	\$33,226	15.3	9.4	8.9	6.1	15.0	3.5	43.0	41.6

The purpose of viewing financial results by image-capture model was to examine the impact of digital imaging on the financial performance of studios. The evolution of digital capture is readily apparent in that only 12 of the 180 participants report that they continue to operate a “film only” business.

Observations

- ▶ The most obvious trend in this grouping is the higher Cost of Sales of the “film only” studios than their “digital only” or “film & digital” counterparts. In all three categories the “digital only” studios record the lowest Cost of Sales percentage, clearly suggesting that recent advances in digital technology and workflow streamlining have begun to take hold.

- ▶ Digital Home Studios actually outperformed the COS benchmark of 35% at a low 31.3%. Digital Retail Studios still need to trim nearly 5% from their Cost of Sales to achieve financial balance.
- ▶ Not surprisingly, studios involved in digital capture show significantly higher Depreciation Expense than studios using film only, verifying the need for digital studios to increase prices to keep up with the increased cost of digital equipment. The difference is particularly striking in Home Studios, in which all-digital operations show 10.8% Depreciation Expense compared to the meager 3.0% of their all-film counterparts.

Table 13/A: Comparison by Proof Method — All Studios: Both Paper & Projection / Projection Only / Paper Proofs Only

All Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Paper & Projection	24	\$224,875	\$40,228	17.9	9.9	11.0	4.8	14.1	5.2	45.0	37.1
Projection Only	112	\$214,382	\$47,220	22.0	8.4	9.5	6.8	15.5	6.7	47.1	30.8
Paper Proofs Only	44	\$136,702	\$25,711	18.8	8.1	8.4	6.2	15.5	9.1	47.2	34.0

Table 13/B: Comparison by Proof Method — Home Studios: Both Paper & Projection / Projection Only / Paper Proofs Only

Home-Based Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Paper & Projection	6	\$152,887	\$28,342	18.5	2.4	3.5	7.1	16.8	8.3	38.1	43.4
Projection Only	38	\$148,197	\$38,393	25.9	4.5	5.9	5.9	16.5	9.7	42.4	31.6
Paper Proofs Only	25	\$95,177	\$25,856	27.2	4.3	3.7	6.1	16.6	8.6	39.2	33.6

Table 13/C: Comparison by Proof Method — Retail Studios: Both Paper & Projection / Projection Only / Paper Proofs Only

Retail Location Studios	# of Studios	Total Sales \$\$	Owner's Comp. + Net Profit \$\$	Owner's Comp. + Net Profit %	Employee (Sales/Admin) Expense %	Building Expense %	Marketing Expense %	Admin Expense %	Depreciation Expense %	Total Gen. Expenses %	Cost of Sales %
Paper & Projection	18	\$248,872	\$44,190	17.8	11.4	12.5	4.7	13.5	4.6	46.4	35.8
Projection Only	74	\$248,369	\$51,752	20.8	9.6	10.7	7.1	15.2	6.0	48.5	30.6
Paper Proofs Only	19	\$191,339	\$25,520	13.3	10.7	11.4	6.3	14.7	9.4	52.4	34.2

Sales professionals have long touted the benefits of selling portraiture and wedding photography by means of projecting client previews because of the strong emotional connection that the projection experience creates in a sales situation. One of the inescapable conclusions of this survey is that projecting previews, in at least those aspects of the business where projection increases sales efficiency (such as “quick take” specials), or product lines in which finished products are likely to be wall portraits, portrait collections, or album collections, are significantly more profitable than their counterparts using old-fashioned paper previews.

Observations

- ▶ Of the 180 studios taking part in the survey, only 44 reported that they continued to use paper proofs only, suggesting that the transition to digital

capture has accelerated the movement to projection of digital previews.

- ▶ Studios using either projection only or a mixture of projection and paper previews enjoyed much higher sales volume.
- ▶ “Projection only” studios registered the lowest Cost of Sales of any category.
- ▶ Studios using paper previews only scored lowest in Owner’s Compensation + Net Profit sales dollars in all three categories: All Studios, Home Studios and Retail Studios.
- ▶ Studios using projection previews only had the highest Owner’s Compensation + Net Profit in both sales dollars and as a percentage of sales across the board: All Studios, Home Studios and Retail Studios. In terms of sales dollars, the 112 studios using projection only were almost twice as profitable (\$47,220) as the 44 studios using paper previews (\$25,711).

Survey Conclusions

Industry Standard Financial Benchmarks

This survey generally supports the anecdotal observations of those within PPA who assist studio owners with their financial issues. This includes PPA-Approved Business Instructors as well as Studio Management Services accountants and consultants. The survey confirms that the Sales, Cost of Sales, General Expenses and Profit benchmarks for Home-Based Studios and Retail-Location Studios they have espoused in recent years are entirely justified. It also suggests that a few changes are in order. Following are the most important confirmations from the survey:

Sales Volume Benchmarks

Home-Based Studios — Most Home Studios require a sales volume of approximately \$150,000 to achieve a reasonable profit level.

Retail-Location Studios — Most Retail Studios require a sales volume of approximately \$250,000 to achieve a reasonable profit level.

Cost of Sales Benchmarks

The higher cost of digital equipment investment clearly justifies lowering Cost of Sales percentages for both Home Studios and Retail Studios by 5%, bringing the suggested COS benchmarks to:

Home-Based Studios — no higher than 35% of Total Sales

Achieving a benchmark of 35% COS requires a mark-up factor for all Cost of Sales items of 2.9.

Retail-Location Studios — no higher than 25% of Total Sales

Achieving a benchmark of 25% COS requires a mark-up factor for all Cost of Sales items of 4.0.

Lowering Cost of Sales—by way of production savings, price increases, and/or higher sales to each client—typically provides the increased revenue needed to fund higher digital investment costs.

General Expenses Benchmarks

The higher General Expenses required to operate studios at commercial locations confirm these benchmarks:

Home-Based Studios — no higher than 30% of Total Sales

Retail-Location Studios — no higher than 40% of Total Sales

Because of the survey's careful review of major General Expenses category performance of all participants, it is now possible to suggest benchmark ranges for the following General Expense Functions: Employee Expense (Sales/Administration); Building Expense; Marketing Expense; Administration Expense; Depreciation Expense. Those suggested ranges are shown on page 24.

Financial Results Benchmarks (Owner's Comp. + Net Profit)

Prior to the survey, PPA management authorities agreed that any studio—home-based or retail-location—should be considered well managed if it achieves a “bottom line” (Owner's Compensation + Net Profit) of 30% of Total Sales. This means that the owner is keeping 30 cents out of every sales dollar received.

An entirely unexpected finding of the survey suggests that it is time to reposition the 30% bottom-line benchmark upward to a more profitable 35% target. This is due to two factors:

- 1) The lower General Expenses of Home-Based Studios, seen in both average and best-performing Home Studios are resulting in higher-than-anticipated profits for Home Studio owners, particularly those who are succeeding in keeping their Cost of Sales below the 35% benchmark.
- 2) The results of best-performing Retail Studios, which are earning 37% in Owner's Compensation + Net Profit, make it clear that this same profit potential exists for Retail-location Studios—if they conform to the other benchmarks suggested in this survey.

Table of Suggested Financial Benchmarks
July, 2006
Home-Based Studios
Retail-Location Studios

Sales Volume Target	\$150,000	Sales Volume Target	\$250,000
COST OF SALES	35%	COST OF SALES	25%
<u>General Expense Categories</u>		<u>General Expense Categories</u>	
Employees (Sales/Administration)	4% - 5%	Employees (Sales/Administration)	7% - 10%
Building Expense	3% - 5%	Building Expense	8% - 11%
Marketing Expense	4% - 7%	Marketing Expense	5% - 8%
Administration Expense	12% - 13%	Administration Expense	12% - 13%
Depreciation Expense	7% - 9%	Depreciation Expense	4% - 6%
TOTAL GENERAL EXPENSES (excluding Owner's Compensation)	30%	TOTAL GENERAL EXPENSES (excluding Owner's Compensation)	40%
OWNER'S COMPENSATION + NET PROFIT	35%	OWNER'S COMPENSATION + NET PROFIT	35%
	\$52,500		\$87,500

Percentage figures shown above are expressed as a percentage of Total Sales

Strategies for Achieving Financial Success

PPA's 2005 Benchmark Survey confirms many of the precepts taught by studio management authorities.

Following are some financial success strategies that are consistent with survey findings:

- ▶ **Gain experience before you “quit your day job.”** It takes time to build a successful photography business as well as many long and late hours learning to master all the complex and interrelated elements of business operations. These range from product development and workflow to promotion, sales and customer service. It helps to gain experience by working in the industry for someone else or operating a part-time business while still drawing a salary from stable employment. Keep that job until you can:
 - » Develop a following among your target market, which means actively gaining client referrals.
 - » Develop consistent cash flow from your part-time business. Most experts agree that a photographer should be grossing between \$50,000 and \$100,000 annually before it is wise to consider a full-time business.
 - » Create an efficient workflow that will allow you to deliver orders on time.
 - » Bank enough cash to live on until your business becomes profitable. This can take from two to five years.
- ▶ **Don't go into business until you are fully aware of all business costs.** Even if you decide to operate a part-time business from your home, don't get started until you are aware of all costs of doing business and how many sessions or events you must photograph to cover these costs and earn a profit. PPA's Studio Management Services offers a one-time financial analysis for new studios grossing less than \$50,000 per year as well as studios at all level of sales. This analysis includes a business plan that will help you get off to the right start by understanding your costs, setting up your accounts, and providing suggestions on how to build your business in its early stages. Full SMS services are available to studios with a minimum of \$50,000 in sales.
- ▶ **Understand the advantages of the home-based business model.** Increasingly photographers are recognizing the advantage of operating a photography business from home. Among the plusses are the following: Home studios involve much less financial risk and pressure due to lower investment and operating expenses; these lower costs mean the photographer can earn an income comparable to his or her retail-location studio counterparts by doing many fewer sessions; being able to write off some home expenses as legitimate business deductions is an added financial bonus; being close to home has certain advantages if the photographer is raising children; and many clients enjoy the private and less stressful atmosphere of a home studio over a busy retail location. Not every home lends itself to business operations because of zoning and/or image considerations. But when the home allows the business to operate in a professional-looking space that does not unduly intrude on the family's lifestyle, then a residential studio offers many advantages that should not be overlooked.
- ▶ **Budget your capital investments very carefully.** Too much debt is a key business killer. It is so easy to start writing checks and charging credit cards when you start a new business. Remember: Your business must be able to generate enough revenue to pay you (or the bank) back for the capital investments you make. Even 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. Once you have the essentials, a good rule of thumb is to purchase only those extras that you can pay for within 12 months.

- ▶ **Guard your cash.** Too many photographers manage their businesses “by check-book balance.” If there is money in the checkbook, they spend it on extras; if not, they start to worry. A business plan that includes a cash-flow forecast will help you to know when to expect lulls in your business that will require funding. Understanding the ups and downs of normal business cycles will help you to conserve cash to cover lean times.
- ▶ **Once you take the plunge, build business volume as fast as you can, doing whatever it takes to get clients in the door.** PPA’s Benchmark Survey confirms what business authorities know: The difference between financial success and failure often turns on the ability of a new business to build business volume quickly. That’s why many recommend not starting a full-time business until you already have a loyal following from running a part-time business. Even so, a full-time business will require additional strategies for building sales. Get the word out any way you can: through networking with other businesses; hosting a 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. Building your business base early will establish sales levels high enough to sustain your business over the long term.
- ▶ **Develop a clear business focus that consumers can easily understand.** Don’t expect prospects to be attracted to your business if you fail to create a business concept that is easily understood by consumers or one that lacks compelling products to excite their fancy. Sometimes it pays to direct your new business to one or two niches, such as family and children’s portraiture or wedding photography. Limiting your business in this way will help you to develop a strong focus that consumers can readily understand, and it will greatly simplify your marketing efforts.

- ▶ **Study effective marketing methods.** Learn how to create year-round marketing strategies designed to:
 - » Attract new clients.
 - » Market back to existing clients, finding ways to reward them for their loyalty.

An excellent resource for learning about marketing methods as well as helping you to create a marketing plan is the *Marketing Resource & Activity Planner for the Professional Photographer*, available from Marathon Press at www.marathonpress.com or call (800) 228-0629.

- ▶ **Make sure you understand profitable pricing methods.** Learn how to price each product according to industry standards. PPA offers a 5-CD set entitled “Mastering Profitable Pricing.” Topics include: Pricing methods (traditional photography); Effective pricing strategies; Pricing digital photography; Effective price lists; Removing sales impediments. You can order the set online at ppa.com. Click on Photographers, then go to Online Store in the left-hand index.
- ▶ **Master effective sales techniques.** Develop selling plans for each product line, answering the following:
 - » Who will sell?
 - » How will they sell?
 - » Proof policies?
 - » Sales incentives?
 - » How to conduct each type of sales presentation?

Among the most important sales techniques to master is selling by projection. This method allows consumers to see their images in the various sizes available for purchase; gives the photographer total control over the sale; and maximizes sales opportunities for the photographer. Industry experience shows that most photographers at least double their sales when they implement preview projection. Most business experts also agree that a planning session prior to the portrait sitting also facilitates sales at the projection session.

- ▶ **Use “managerial accounting” standards endorsed by PPA to track your business progress.** When you set up your business books according to managerial accounting standards, you will gain insight into your business performance that is not possible when your books are structured to provide only the information needed to pay taxes. The same managerial accounts can be used to calculate business taxes, but you will gain vital information from them to help you make sound business decisions. By comparing your financial results to the benchmarks suggested by this survey, you can make the changes necessary to achieve the best possible profit for your specific business model.
- ▶ **Hire an accountant who understands the photography industry.** The business of photography is far more complex than most accountants recognize. Often photographers don’t receive the information they need because local CPAs or accountants do not understand this complexity and are not aware of tax-saving strategies open to small business. PPA’s Studio Management Services division is the only organization whose accountants and management consultants work exclusively with photographers. Learn more about SMS on pages 31-36.
- ▶ **Don’t hire employees until your business can afford them.** Most business experts agree that it requires approximately \$100,000 in additional sales to support a new full-time employee. It is not easy to run a full-time business without 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.
- ▶ **Outsource as much of your workflow as you can.** The top-performing studios in PPA’s 2005 Benchmark Survey underscored the fact that employee costs must be controlled in order to benefit the studio’s bottom line. Outsourcing production to a professional lab helps to do just that: Less production work is done by staff, which increases overall financial and operational efficiency.
- ▶ **Start a “Reinvestment Fund.”** As early in your business as possible, set aside a portion of each sales dollar as a reinvestment fund for new capital expenditures. Photography today is very much a technological art. Technology is changing by the month, and it takes funding to keep up with new developments that can save time or expand your artistic horizons. Today most photographic studios write off 100% of their annual capital purchases, so it’s more important than ever to fund those purchases through sales to clients. This is less likely to happen until you develop a reinvestment fund strategy.
- ▶ **Start planning for your retirement NOW.** Smart business people understand that income must be sufficient not only to cover your living expenses, but it also must provide for your retirement. 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 as early as possible.
- ▶ **Keep your business 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 & Expense Budget
 - » Image-marketing Plan
 - » Action-marketing Plan
 - » Marketing Calendar
- ▶ **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. Industry-specific business programs offered by PPA include PPA Business Modules, offered prior to the Imaging USA; PPA’s annual Make More Money in Photography Conference; PPA’s Approved Business Course, offered through Affiliate Schools; and numerous Super Monday courses offered throughout the country. Many of these courses carry Credits that can be used toward completion of PPA’s Certificate of Business Management. To learn more about these events, visit PPA.com for schedules and information.

Benchmark Success Stories

The following scenarios, taken from real-world situations involving Studio Management Services clients, will help you to fully understand the power of benchmarks in helping to guide your business in the most profitable direction.

A Wedding Story: From Panic to Profits

In 2004 a talented metropolitan-area wedding photographer, with a full schedule of upscale weddings, found herself working night and day to provide the image quality and customer service required by her demanding clientele. Even though she was working in a low-overhead residential studio, cash flow lags sometimes made it difficult for her to pay bills on time. With small children at home, she was desperate for additional office help but believed that the business couldn't afford it. She hoped that spending \$7,000 on a high-powered accountant to advise her would help to improve her profitability. At the end of 2004, the exhausted photographer had only \$11,546 to show for her year of very hard work. The accountant suggested that she solve her financial shortfall by booking more weddings.

The frustrated photographer turned to Studio Management Services for help. Her initial SMS evaluation immediately revealed that increasing the number of wedding bookings would NEVER solve the problem: Her business was posting a crippling Cost of Sales percentage of 58.7%. Nearly 60 cents out of every Total Sales dollar was being spent to create her clients' images and albums! The first teleconference meeting with her SMS Studio Consultant pinpointed the reason for the high Cost of Sales problem: She was photographing with both digital and film cameras and receiving lab proofs in two different tonalities that were not compatible. In an effort to provide her clients with acceptable proofs and finished prints, her lab costs (due to reprints) were out of control.

After several months of accelerating her digital learning curve and working with a different professional lab, her COS percentage began to drop to acceptable levels. By the end of 2005, COS was a more comfortable 41%. Improved cash flow allowed her to increase marketing expenses, spend slightly more on office help, and she concluded the year with a very different bottom line: \$80,806, or

30.7% of Total Sales. At less than 5 percentage points away from PPA's recommended Home Studio benchmark of 35% for Owner's Compensation + Net Profit, this photographer is now poised to join the ranks of the industry's best-performing Home Studios. In an ironic twist, she managed to accomplish this stellar financial performance, while at the same time reducing her accounting fees approximately 40%, by switching to Studio Management Services.

Income / Expense Comparison

	2005	% sales	2004	% sales
Total Sales	\$263,217	100.0%	\$177,620	100.0%
Cost of Sales	\$107,957	41.0%	\$104,290	58.7%
Gross Profit	\$155,260	59.0%	\$73,330	41.3%
<u>General Expenses</u>				
Employee Expense	11,181	4.3%	8,173	4.6%
Building Expense	2,047	0.8%	1,215	0.7%
Marketing Expense	29,904	11.4%	11,683	6.6%
Administrative Expense	24,322	9.2%	25,682	14.5%
Depreciation Expense	7,000	2.7%	15,067	8.5%
Total General Expenses	\$74,45	428.4%	\$61,820	34.9%
Comp. + Net Profit	\$80,806	30.6%	\$11,509	6.4%

Putting Benchmarks to Work: Small Changes Equal A Bigger Bottom Line

An ambitious husband and wife team, who had operated a busy retail-location studio for 12 years, were frustrated by the fact that even though their sales were growing, their income was not. In early 2005 they turned to Studio Management Services for help.

Their year-end 2004 figures revealed that their Total Sales were significant at \$187,533, but their Owner's Compensation + Net Profit was only \$18,791, or (10%) of each sales dollar.

Like many businesses that are struggling at this level of sales, there were only a few key issues that caused this lackluster performance. Most notable was extremely high Depreciation Expense at \$30,548 or 16% of Total Sales. Another troublesome area showed up under Administrative Costs: In 2004 the business spent \$7,119 on props and non-depreciated equipment.

Once the couple understood their situation, they began trimming expenses and watching their number very closely. This diligence paid off handsomely, as they saw their Owner's Compensation + Net Profit grow from under \$19,000 to nearly \$68,000 in one year. They accomplished this by reducing lab costs, declaring a moratorium on purchasing props, and cutting equipment purchases to just over one-third of the previous year's expenditures. At the same time they implemented a price increase that helped to boost sales by \$39,000. These changes resulted in dropping the studio's Cost of Sales percentage by 3 points.

As a result of these changes the couple's Owner's Compensation + Net Profit growth created a bottom-line swing of 19 points to 29.0%—quite an accomplishment in a single year.

Income / Expense Comparison

	2005	% sales	2004	% sales
Total Sales	\$226,534	100.0%	\$187,533	100.0%
Cost of Sales	\$72,126	32.0%	\$65,072	35.0%
Gross Profit	\$154,408	68.0%	\$122,461	65.0%
<u>General Expenses</u>				
Employee Expense	20,383	9.0%	17,361	9.0%
Building Expense	17,568	8.0%	16,395	9.0%
Marketing Expense	10,501	5.0%	9,606	5.0%
Administrative Expense	27,041	12.0%	29,760	15.0%
Depreciation Expense	11,122	5.0%	30,548	16.0%
Total General Expenses	\$86,615	39.0%	\$103,670	55.0%
Comp. + Net Profit	\$67,793	29.0%	\$18,791	10%

All in the Family: Improving a Family Business Bottom Line

In 2002 a second-generation family business, run by three family members and located in a retail space, sought the help of Studio Management Service to increase their profit picture. At the end of 2002, the three principals were sharing in a \$156,590 bottom line. Their bloated 48.8% Cost of Sales suggested that they could do much better.

Consultations with the family members revealed that their COS problem had a serious root cause: a very high number of images created per session was straining resources, which in turn caused the business to experience high in-house labor costs. The studio also was in the midst of a transition from film to digital equipment, so it was not likely that Depreciation Expense and other General Expenses would go down. It quickly became apparent that the best strategies for increasing profits would come from reducing Cost of Sales and increasing Total Sales.

Twenty-four months later the business had done just that. Sales increased from \$615,663 to \$755,203. Cost of Sales went down from 48.8% to 31.3%, primarily a consequence of reducing time spent in sessions, sales and workflow. Most importantly, Owner's Compensation + Net Profit nearly doubled, going from \$156,950 to \$301,390. This performance brought the studio's bottom line percentage to 40.0%, 5 percentage points greater than the benchmark for a well-managed studio.

Income / Expense Comparison

	2004	% sales	2002	% sales
Total Sales	\$755,203	100.0%	\$615,663	100.0%
Cost of Sales	\$236,559	31.3%	\$281,713	48.8%
Gross Profit	\$518,644	68.7%	\$333,950	51.2%
<u>General Expenses</u>				
Employee Expense	62,132	8.2%	49,041	8.0%
Outside Expense	4,601	0.6%	3,212	0.5%
Building Expense	29,928	4.0%	26,964	4.4%
Marketing Expense	37,353	5.0%	28,676	4.7%
Administrative Expense	54,125	7.2%	41,946	6.8%
Depreciation Expense	29,115	3.9%	27,161	4.4%
Total General Expenses	\$217,254	28.7%	\$177,000	28.8%
Comp. + Net Profit	\$301,390	40.0%	\$156,950	22.4%

About Studio Management Services

The Studio Management Services (SMS) division of PPA was founded in 2002. Its services include managerial accounting and business consulting conducted by a staff of accountants and experienced peer mentors with a track record of operating successful photography businesses and product-line specialties.

Unlike most accounting firms that must pay huge partner fees and company bonuses, SMS can offer its PPA-member client studios a both accounting and consulting services at affordable rates. As a “photography only” accounting organization, the SMS staff understands both the business and financial complexities of managing photography studios as well as the industry standards that govern their financial performance.

SMS Provides the Following Services:

For New Businesses

For newer studios that have gross sales of less than \$50,000 SMS offers a one-time consultation that includes setting up their financial recording-keeping software, a financial plan for the next year, and a two-hour consultation to discuss marketing, pricing, and other business issues. Once studios reach the \$50,000 level of sales, they are eligible to participate as a regular client of Studio Management Services.

For Established Businesses

For studios grossing \$50,000 and above, SMS offers a full range of professional services including:

- ▶ **Initial Financial Profitability Analysis:** Upon completing a questionnaire about your business and submitting your financial records to SMS, your accountant will review the previous year’s financials, correct errors or discrepancies, then present your figures in managerial form that allows you to understand areas of strength or weakness in your business. Your results also will be compared to industry benchmarks developed by SMS.

- ▶ **Initial Business Evaluation:** Your accountant and studio consultant will participate with you in a teleconference that includes:
 - » Image quality review
 - » Marketing materials and price list evaluation
 - » Studio facilities review (via video or photographs)
 - » Discussion about ways to improve your business and an opportunity to answer your business questions.
- ▶ **Quarterly Business Consultations:** Following the Initial Evaluation, teleconferences are scheduled quarterly.
- ▶ **Ongoing Analysis and/or Production of Business Financial Statements:** You may elect to have statements prepared and discussed by your accountant either monthly or quarterly.
- ▶ **Preparation of Quarterly Payroll Tax Returns.** Additional fee required.
- ▶ **Year-End Business and Personal Income Tax Filings.** Additional fee required.
- ▶ **Creation of Managerial Analysis Reports and Budgets.** Your SMS accountant provides you with the following:
 - » **Income and Expense Comparison** – Shows your financial results for the current business year posted against the previous year’s results and the current year’s projections. Provided quarterly.
 - » **Your Studio’s Industry Benchmark Comparison** – Shows how your business ranks in key financial benchmark areas against other similar studios enrolled in Studio Management Services. Provided annually.
 - » **Annual Income & Expense Projection** – Your SMS accountant will work with you to create a financial management plan for the next fiscal year. Components of the plan are shown on pages 32-34.

Annual Sales & Sessions Projection

This document is prepared by the studio's SMS accountant, in consultation with the studio owner(s), as part of the annual planning process before the beginning of the next fiscal year. The projections are based on the previous year's sessions, sales totals, and sales averages (presented by product line and marketing category), taking into account any adjustments the studio expects to make toward increasing or decreasing sessions and sales. This allows the owners to plan necessary product line marketing activities to support the financial

projections, and it acts as a reality check on how many sessions the studio can reasonably accomplish at the current level of staffing. It also serves as a guide against which the studio can measure its sessions and sales progress throughout the year, providing an opportunity to react to business ups and downs in a timely fashion.

Sales Projection													
Plan 01/01/2006													
Product Line	Totals	January	February	March	April	May	June	July	August	September	October	November	December
Totals	192,100.00	3,400.00	2,275.00	3,250.00	7,800.00	12,600.00	19,975.00	29,075.00	26,725.00	36,750.00	22,100.00	18,500.00	9,650.00
	83	0	0	1	4	5	14	12	16	16	8	5	2
Children	3,000.00	0.00	0.00	500.00	500.00	0.00	500.00	0.00	500.00	0.00	500.00	0.00	500.00
Avg. Sale: \$500	6	0	0	1	1	0	1	0	1	0	1	0	1
Commercial	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0	0	0	0	0	0	0	0	0	0	0	0	0
Events	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0	0	0	0	0	0	0	0	0	0	0	0	0
Families	23,500.00	0.00	175.00	350.00	1,350.00	2,350.00	2,525.00	2,875.00	3,525.00	5,350.00	3,000.00	2,000.00	0.00
Avg. Sale: \$1,175	20	0	0	0	1	2	2	2	3	5	3	2	0
Seniors	17,500.00	0.00	0.00	0.00	0.00	0.00	5,600.00	2,800.00	5,600.00	3,500.00	0.00	0.00	0.00
Avg. Sale: \$700	25	0	0	0	0	0	8	4	8	5	0	0	0
Undergraduates	2,400.00	0.00	0.00	0.00	1,200.00	0.00	0.00	0.00	0.00	0.00	0.00	1,200.00	0.00
Avg. Sale: \$1,200	2	0	0	0	1	0	0	0	0	0	0	1	0
Weddings	145,700.00	3,400.00	2,100.00	2,400.00	4,750.00	10,250.00	11,350.00	23,400.00	17,100.00	27,900.00	18,600.00	15,300.00	9,150.00
Avg. Sale: \$5,550	30	0	0	0	1	3	3	6	4	6	4	2	1

Annual Expense Budget

This document is prepared by the studio's SMS accountant, in consultation with the studio owner(s), as part of the annual planning process before the beginning of the next fiscal year. The budget is based on previous year's General Expenses. The expense budgeting process helps owners confront the spending realities in every aspect of their business. This process is fundamental to controlling

expenses and provides a vital management structure. By monitoring expenses each month, owners can react in a timely manner whenever overspending occurs and/or they can cut back on spending when revenues underperform their projections.

Expense Budget														
Plan 01/01/2006														
Expense Category	Totals	% Sales	January	February	March	April	May	June	July	August	September	October	November	December
Totals	145,572.00	75.8	12,996.00	10,246.00	11,796.00	13,676.00	11,726.00	12,126.00	12,576.00	12,126.00	12,126.00	12,126.00	12,376.00	11,676.00
I Owner's Health Ins.	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Owner's Salary	72,000.00	37.5	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00
II Employee Expense	22,600.00	11.8	200.00	400.00	1,600.00	1,600.00	2,000.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00
III Outside Services	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV Insurance	900.00	0.5	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00
Maintenance	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property Tax	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rent	10,800.00	5.6	900.00	900.00	900.00	900.00	900.00	900.00	900.00	900.00	900.00	900.00	900.00	900.00
Utilities	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
V Advertising	17,450.00	9.1	3,865.00	1,365.00	1,365.00	1,345.00	1,345.00	1,345.00	1,345.00	1,345.00	1,345.00	895.00	995.00	895.00
VI Accounting/Legal	2,450.00	1.3	550.00	100.00	450.00	450.00	0.00	0.00	450.00	0.00	0.00	450.00	0.00	0.00
Auto Expense	600.00	0.3	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Education Expense	4,372.00	2.3	156.00	156.00	156.00	2,056.00	156.00	156.00	156.00	156.00	156.00	156.00	156.00	156.00
Interest	3,000.00	1.6	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Miscellaneous	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Office Expense	2,400.00	1.2	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00
Postage	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Props/Accessories	1,200.00	0.6	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Telephone	3,000.00	1.6	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
VII Depreciation	4,800.00	2.5	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00

Annual Income & Expense Budget

This document is prepared by the studio's SMS accountant, in consultation with the studio owner(s), as part of the annual planning process before the beginning of the next fiscal year. It presents a monthly budget for Total Sales minus Cost of Sales (based on the desired COS percentage) to calculate Gross Profit. General Expenses are then deducted from Gross Profit to arrive at the business

Net Profit. The budget also combines Owner's Compensation with Net Profit to calculate the projected Financial Results for the coming fiscal year. In addition, the budget presents a summary of major General Expense functions so they can be monitored as a percentage of Total Sales. This helps to bring into clear focus exactly how the business is spending its revenue.

Income & Expense Budget

Plan 01/01/2006

	TOTALS	% of Sales	January	February	March	April	May	June	July	August	September	October	November	December
Total Sales	192,100.00	100.0	3,400.00	2,275.00	3,250.00	7,800.00	12,600.00	19,975.00	29,075.00	26,725.00	36,750.00	22,100.00	18,500.00	9,650.00
Cost of Sales	53,075.00	27.6	0.00	0.00	100.00	2,081.25	4,750.00	6,250.00	9,612.50	7,931.25	10,668.75	6,531.25	3,662.50	1,487.50
Gross Profit	139,025.00	72.4	3,400.00	2,275.00	3,150.00	5,718.75	7,850.00	13,725.00	19,462.50	18,793.75	26,081.25	15,568.75	14,837.50	8,162.50
Gen. Expenses	145,572.00	75.8	12,996.00	10,246.00	11,796.00	13,676.00	11,726.00	12,126.00	12,576.00	12,126.00	12,126.00	12,126.00	12,376.00	11,676.00
Net Profit	-6,547.00	-3.4	-9,596.00	-7,971.00	-8,646.00	-7,957.25	-3,876.00	1,599.00	6,886.50	6,667.75	13,955.25	3,442.75	2,461.50	-3,513.50

Owner's Compensation + Net Profit 65,453.00 34.1% Automatic Cost of Sales Computation

Expense Function Totals Automatic Cost of Sales

Total Expenses	% of Sales	Business Functions
72,000.00	37.4%	I. Owner's Compensation
22,600.00	11.7%	II. Employee Expense
0.00	0.0%	III. Services you buy from people not on your payroll
11,700.00	6.0%	IV. Overhead expenses associated with your place(s) of business
17,450.00	9.0%	V. Costs associated with bringing business into your studio
17,022.00	8.8%	VI. Administrative costs - cost of doing business in any location
4,800.00	2.4%	VII. Depreciation

Two-Year Income / Expense Comparison

This document is prepared quarterly by the studio's accountant. It compares the studio's Income / Expense results from the current year to those from the preceding year. This allows the studio owner to compare his or her business progress over the past 24 months and to recognize trends from one year to

the next. It also compares the studio's financial performance to industry benchmarks, which provides studios with important insights into quality of their business performance.

Sample Photography Studio Profit and Loss Comparison Dec 2004 to Dec 2005							
	<u>Dec 05</u>		<u>Dec 04</u>		<u>Average Retail Studio</u>	<u>Top-Performing Retail Studios</u>	
Total Income	226,534.00		187,533.00		238,689	278,159	
Cost of Goods Sold	<u>72,126.00</u>	32%	<u>65,072.00</u>	35%	31.96	27.00	
Gross Profit	154,408.00		122,461.00				
Expense							
Administrative costs							
Accounting/legal	3,175.00		0.00				
Auto expense	6,793.00		5,467.00				
Education expense	3,088.00		5,450.00				
Interest expense	1,820.00		0.00				
Office expense	7,798.00		6,987.00				
Postage	519.00		216.00				
Props & equipment costs	183.00		7,119.00				
Telephone	<u>3,665.00</u>		<u>3,444.00</u>				
Total Administrative costs	27,041.00	12%	28,683.00	15%	14.82	12.00	
Employee Expense	20,383.00	9%	17,361.00	9%	10.06	7.00	
Marketing expense	10,501.00	5%	9,606.00	5%	6.51	5.00	
Outside Services		0%	1,077.00	1%			
Overhead expenses							
Building maintenance	450.00		750.00				
Real estate tax			633.00				
Rent	13,243.00		10,184.00				
Mortgage int			2,484.00				
Utilities	2,411.00		1,674.00				
Insurance	<u>1,464.00</u>		<u>670.00</u>				
Total Overhead expenses	17,568.00	8%	16,395.00	9%	11.08	8.00	
Owners Compensation	25,019.00		0.00				
Total Expense	<u>100,512.00</u>		<u>73,122.00</u>				
Net Income	53,896.00		49,339.00				
Depreciation	78,915.00		49,339.00				
Net Profit and Owner's Comp	67,793.00	30%	18,791.00	10%	46,036	19.29%	102,698 37.00%

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Ann K. Monteith, CPP, M.Photog.Cr., Hon.M.Photog., A-ASP, Hon.A-ASP, ABI, API

Ann Monteith is the industry's leading authority on studio business management and serves as a consultant to studios throughout the country both privately and under the auspices of major industry suppliers. Her Guerrilla Management Workshops have helped hundreds of studio owners dramatically improve the profitability of their businesses.

She is a former chairman of the Board of Trustees of the PPA International School of Professional Photography and past president of Professional Photographers of America (PPA). She is the author or editor of numerous books and articles published by the industry press including *The Business of Wedding Photography* (Amphoto, New York, 1998), *The Professional Photographer's Marketing Handbook* (Marathon Press, Norfolk, NE, 1997) *The Professional Photographer's Management Handbook* (Marathon Press, 1999), and the *Marketing Resource & Activity Planner* (Marathon Press, 2005).

Monteith was instrumental in creating the Association's Business Initiative and its Studio Management Services division. She is the author of the "Once Upon A Lifetime" children's portraiture client education program; and the PPA "AN-NE" award for marketing excellence was so-named to honor her (AN) and former PPA president Marvel Nelson (NE) for their efforts in improving the marketing skills of professional photographers.

Ann Monteith holds the B.A. degree in English from Bucknell University.

Awards and Recognitions

- First recipient of the Charles H. "Bud" Haynes Award "for distinguished service to PPA and its members for encouraging business awareness and practices in the field of professional image-making" (2006)
- Gerhard Bakker Award "for lifetime achievement and service through education in the field of photography and visual communications" (2002)
- PPA National Award presented by Professional Photographers Association of Pennsylvania (1998)
- PPA National Award presented by the PPA Minority Network (1996)
- Directors Award, presented by the PPA Board of Directors "in recognition of leadership and extraordinary services rendered in furthering the advancement and growth of professional photography" (1992)