

STRATEGIES FOR SUSTAINABILITY
GUIDANCE FOR SMALL AND MEDIUM
HERITAGE ORGANISATIONS

Guide 01.

Shops and cafés: pathways to profit?

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Heritage
Compass



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Foreword

Everyone reading this guide will be familiar with the challenge of running a **successful and sustainable heritage organisation** – and the reality that it doesn't get any easier, particularly if you aren't one of the large household name organisations. What isn't always clear is whether the challenges or opportunities you face are unique to your organisation. It can also be difficult to judge your own success, particularly in relation to others. It might similarly be hard to know if you can **do better** or whether you should **do things differently**. In other words, the sort of comparative analysis routinely undertaken in different spheres: whether comparing prospective universities or energy suppliers.

We think that it is **possible to learn from what others are doing**, mainly when it's a peer group of similar-size organisations. And we believe that a good **starting point** is to **use data**

about how others are doing and what they are doing so that we can **compare different organisations**. This approach – more commonly known as **benchmarking** – is often argued to be a helpful tool to help improve standards or to support decision making.¹

This guide – **the first in a series** – aims to help you make **better strategic choices** in your organisation. It uses benchmarking data from similar heritage organisations to your own. It is based on an **analysis** of publicly available **financial data** provided to regulators by participants in the **Heritage Compass programme** in England. In this guide, we have focused on the role of **cafés and shops** in heritage organisations, often the first step in income generation for those seeking a financially sustainable future. We believe that the data from these organisations offers **helpful insight** into **growth, sustainability** and **success**.

And to help see the bigger picture, we have benchmarked this cohort against a comparison group of similar-sized non-profit organisations also running cafés and shops.

This learning doesn't replace peer advice, good local knowledge, or community engagement, but it does give **helpful scaffolding** for the development and growth of trading income from cafés and shops. We hope that this learning can support your hard work and decision making with some **concrete data** to help you run a more **successful and sustainable heritage organisation**.

MYCAKE AND CAUSE4

Introduction



Setting up a **shop** or a **café** is arguably increasingly important for heritage organisations wishing to offer a **memorable visitor experience**. Some heritage sector consultants advise that it is now necessary, as visitors expect such amenities. For public benefit organisations, establishing a café or shop has long been seen as one of the **first steps** towards **sustainability**. It is an opportunity to develop unrestricted trading income – and hopefully **profit**.

Even better, a shop or café is also on mission. That could be a goal around the **environment** and **sustainability**, such as selling own-grown organic produce or providing a community space for lonely or isolated people to come together, such as a community café.² Some shops or cafés combine several different missions: addressing food poverty and providing work for people not in employment, education, or training. Some organisations achieve this by using models such as pay-what-you-can. Others might be rooted in broader concerns about the environment or

the food we eat and, as such, might limit what they offer – though this might tap into current consumer trends.³ In short, cafés and shops offer a fantastic means to **deliver impact** and to **make money**.

So far, so good. But combining mission and financial success is a balancing act at the best of times. Changes in **consumer trends** post-Covid-19, not least the rise of the **'at home economy'**, mean that even for café owners or retailers less concerned about social impact, making a profit is hard.⁴ For heritage organisations with even less control over factors such as location or the ability to remodel their venue, the financial drivers and realities of running a successful shop or café need careful thought.

Therefore, one of the first questions you might want to ask is: will this **make a profit**, or will this **add to our costs**? Our aim here is to explore the tricky question of finance in more detail. We want to help you start with the **fundamental questions**: why are we doing this? Is it to make money?

Or because it contributes to our mission? Or – ideally – both? While we can't help you answer questions about the contribution of cafés or shops to your particular mission, we can help you think about the **role of cafés and shops** to your **sustainability**. There is lots of advice available on setting up and operating a café or shop – we've listed some **resources** at the end of this guide.



Our data



We've looked at two different groups of organisations to help you think about the roles of cafés and retailing in your organisation.

01

Heritage Compass participants

The **first group** are all participants in the **Heritage Compass programme** – in effect, your peer organisations. For everyone in the group, we have collected **data** on **income, assets** and **costs** published in annual reports and accounts, which is available from regulators, including Companies House and the Charity Commission for England and Wales. This approach means that we can use **reliable, audited data** in a common format, though it does mean the data is older than we would like. In this case, we have used data for 2019 – in other words, pre-Covid-19.

02

Similarly sized charities

The **second group** is a hand-picked group of similarly **sized charities** and **non-profit organisations**, all of which run cafés or shops as part of their operation – but without being the sole purpose of what they do or the primary way of delivering their mission. By comparing with this group, our aim is to show what is typical for organisations for which cafés or shops are an established part of their operations. This gives us a more **comprehensive view** of what can be achieved from a café or retail activities.



Heritage Compass participants: benchmark



Over half of Heritage Compass participants generate some income from retail or cafés

There are approximately 170 organisations in the **Heritage Compass programme**. The data set on which we have based our analysis covers 110 organisations with a total income of £95.5m.⁵ The cohort has various **income streams**, from trust and foundation grants to venue-based trading income. Trading income was worth £27.8m in 2019. Cafés and shops play a role in this: 63 of the 110 Heritage Compass organisations (57%) for which we have data, report income from shops and retail, cafes and catering, or both.

Organisations with shops and retail outnumber those with cafés and catering by 3:1

Organisations are more likely to be running shops and retail activity than cafés: 50 organisations (45%) have some retail activity. Cafés and catering are less widespread – one in five (22) Heritage Compass organisations operate a café or provide catering. Our data suggests that

relatively **few organisations** do both – only nine in our sample of 110.

Shops and cafés are small scale activities relative to the size of the organisations running them

Shops, retail, café and catering are not making a **substantial contribution** to the turnover of the Heritage Compass cohort as a whole. We estimate that for the group of 63 organisations that engage in these activities, they generated less than **5%** of the **total turnover** of this group. For those interested in the **sustainability** of the entire cohort of Heritage Compass organisations, shops and cafés contribute less than 1.5% of the whole cohort's revenue.

Shops make a larger contribution than cafés to the Heritage Compass cohort as a whole

For the organisations that generate income from shops and cafés, three-quarters of this is from shops and retail. For every £10 of turnover from retail or cafés, £7.33 is from retail only, £1.98 from cafés only, and £0.69 from

organisations with both activities. This is because more organisations in the group are running a shop. This might reflect the 'wisdom of the crowd' that **retail** is where there is the **greatest opportunity** to generate revenue.

But cafés are relatively more important to the heritage organisations running them

For the organisations that are running cafés, they account for 13% of turnover. This might suggest that the **decision** to run a café is a **significant** one requiring a relatively large proportion of time and commitment – or that smaller organisations make their **first steps** in trading by opening a café. We think the latter is more likely: smaller heritage organisations start their trading journey by opening a café.

By contrast, retail accounts for only 9.7% of turnover for organisations running shops. Organisations with shops are, on average, much **larger** than those with cafes. This might suggest that retailing is undertaken by larger organisations

rather than retail **driving** the growth and size of those organisations.

Shops and cafés are also small-scale activities in absolute terms

The shops and cafés run by the Heritage Compass participants vary in size. We think that the best indicator of what is typical is **median** income: half of all shops and cafés will generate more than this, half will generate less.

The **key insight** is that these are typically very **small-scale** operations, albeit with exceptions. Our benchmarking data shows that the typical retail operation generates less than £10,000 revenue per annum, illustrated by the median income figure. The typical or median income from a café is slightly over £8,000 of revenue. In short, our benchmark data suggests that the typical shop is generating £190/week and the typical café £156/week.

Figures for the **average** shop or café are higher, approximately £25,000 and £21,000 respectively. The average income from shops and cafés reflects

the inclusion of a handful of large operations, and as such, we do not think that these are typical of the scale of operation across the cohort.

Do organisations understand their costs and profits?

Our figures are accompanied by the caution that we have benchmark data on **gross profit** for fewer organisations. Although 63 organisations state their income from shops and cafés, fewer have stated the direct costs of operating these trading activities. Data on profit from cafés, in particular, is based on a small sample. Nevertheless, we believe that these figures are indicative.

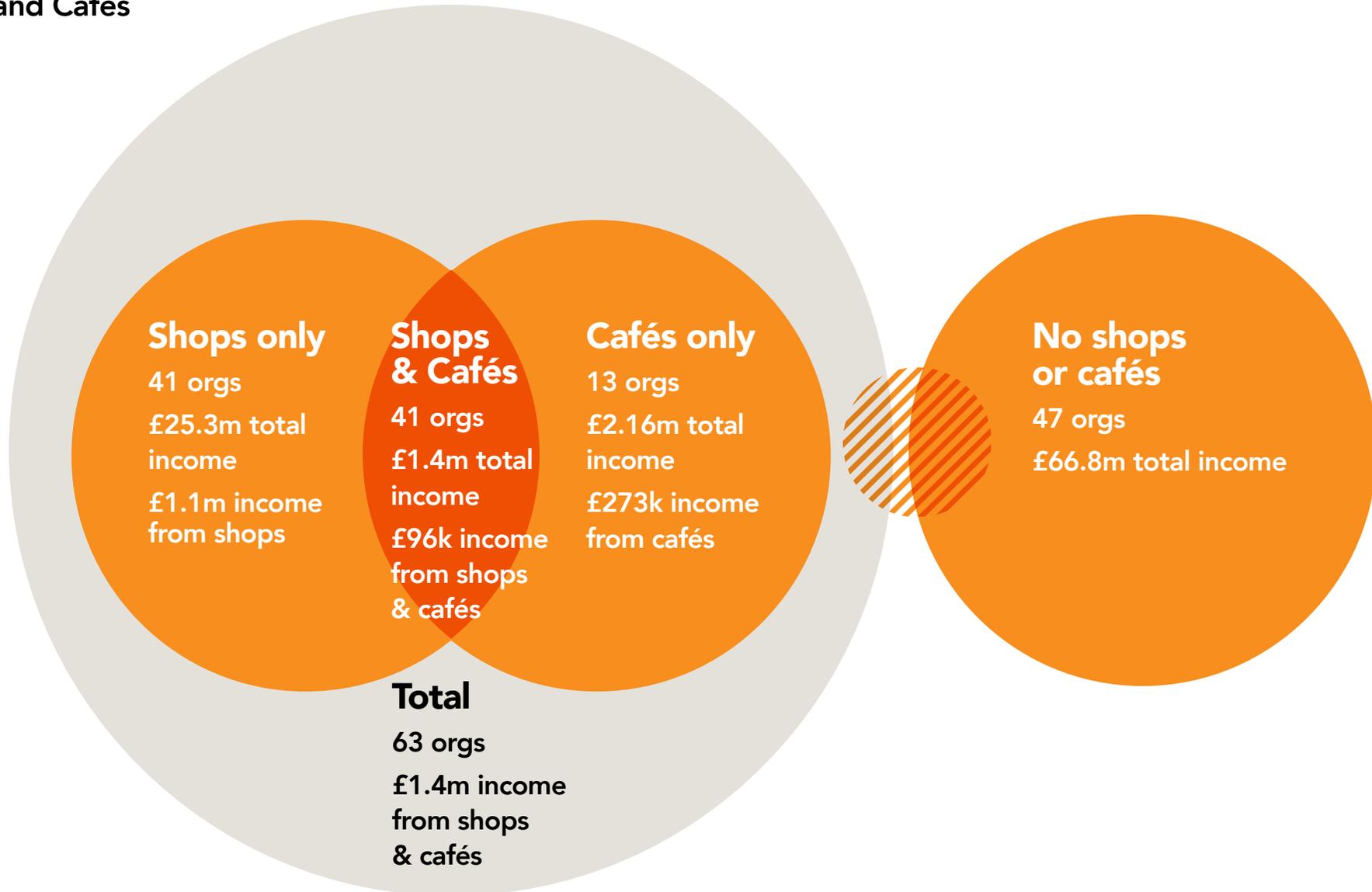
It is also important to note that these figures represent **gross** profit. For the benchmarks below, organisations will still need to subtract any costs for utilities, staff or volunteer management costs to establish figures for net profits or losses. We are concerned that cafés and shops may not be contributing a net profit – funds that can be used for another aspect of the organisation's work. We are also

concerned that organisations may not have the data to know whether this is the case or not.

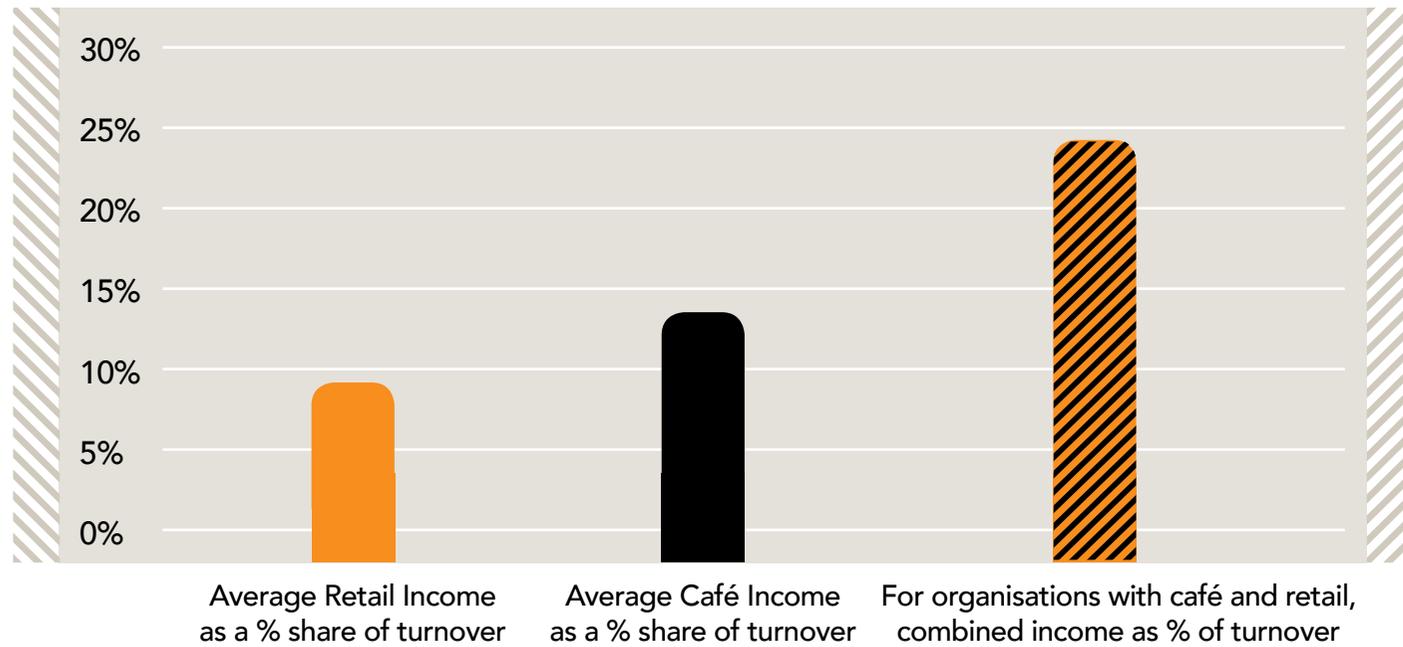
Gross profits: for Heritage Compass organisations, shops are more profitable than cafés

The shops and cafés run by the Heritage Compass participants vary in size, but the key message is that shops are more **profitable** than cafés. The typical or median retail function generates an annual **gross profit** of almost £4,000. Assuming that organisations are open all year round, this equates to a gross profit of or £74 per week. It may be more realistic to assume that organisations are open for six months of the year, in which case, this indicates a gross profit of £148 per week. The typical or median café generates a gross profit of just over £2,200 or £43 per week. We estimate that the typical gross **profit margin** for cafés is 29%. The gross profit margin for shops is 55%.

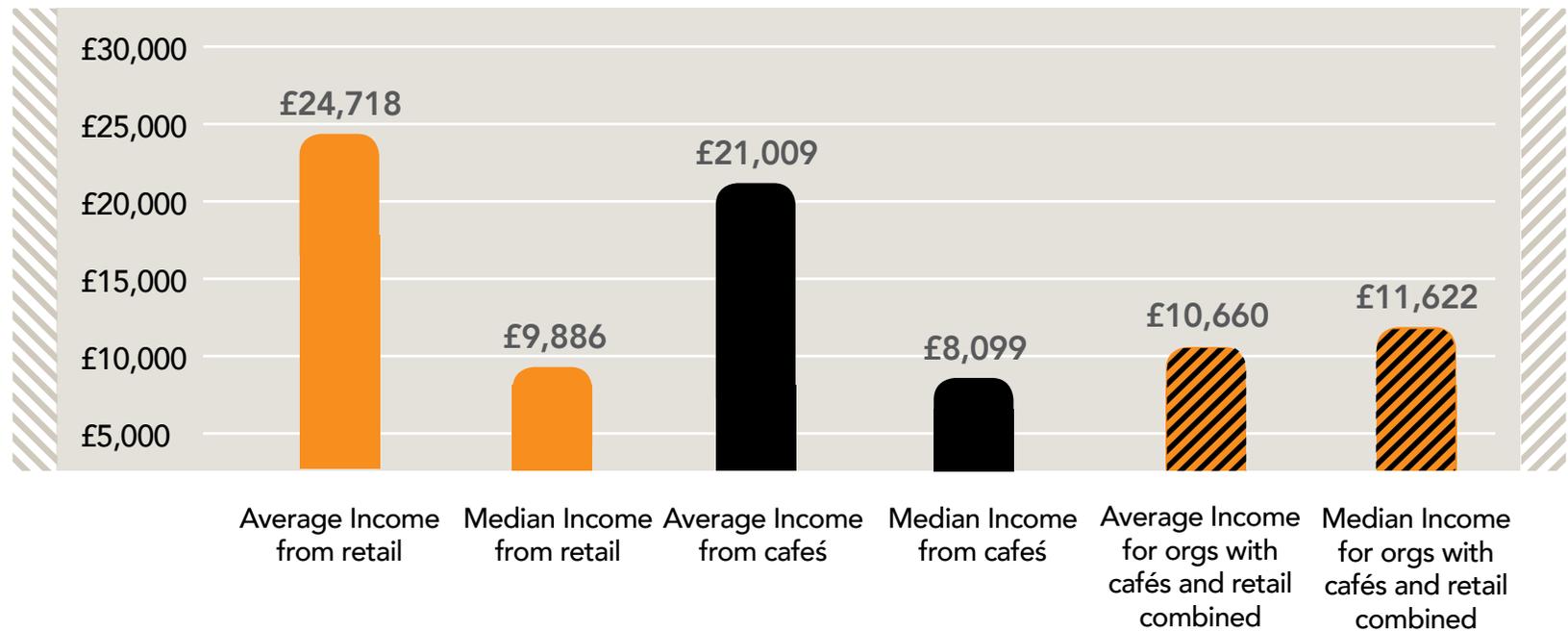
Overview of Shops and Cafés



Contribution to turnover, Heritage Compass organisations



Income from shops and cafés, Heritage Compass organisations



Increasing gross profit: what is achievable?

By looking at the **average** and **upper quartile** gross profit levels, it is possible to indicate what is realistically achievable, bearing in mind that these might also reflect other factors, such as larger premises or more than one site.

The **table below** shows the Heritage Compass cohort's median, average, and upper quartile gross profits. At the upper quartile, three-quarters of the cohort report annual gross profits below this level. One-quarter of the cohort report profits above this level.

The average gross profits made across the cohort are higher due to a small number of larger organisations. Average annual gross profits are over £9,000 for cafés and almost £6,500 for shops. If the typical shop or café could generate profits at the same level as the average, gross profits would increase by £51 per week (shops) and £132 per week (cafés). However, operating at a larger scale does not necessarily increase the gross profit margin. The average gross profit margin for cafés is virtually the same as the median, at 30%. The average gross profit is nineteen percentage points lower at 36% for shops.

Organisations with **gross profit levels** at the **upper quartile** level generate over £11,200 per year from cafés – over £9,000 more than the median gross profit. For organisations with shops operating at the upper quartile, the benchmark gross profit is just over £5,500 – or £1,700 more than the typical profit from retail. It is worth noting that the average profit from shops is above the upper quartile level, suggesting that a small number of star performers are in the group – but these are unlikely to be typical of what is achievable. These figures indicate that **cafés** offer **greater potential**, though this is based upon a small number of observations.

Gross profit	Median	Average	Upper quartile
Cafés gross profit	£2,236	£9,105	£11,271
Per week	£43	£175	£217
Shops gross profit	£3,824	£6,470	£5,528
Per week	£74	£124	£106

Income from shops and cafés

See glossary on p26



Conclusion

Over half of the current Heritage Compass cohort run shops or cafes, but these operate at a relatively **small scale** compared to the parent organisation's turnover. Shops are contributing more to the turnover of the cohort. Cafés contribute a larger share of turnover than shops to individual Heritage Compass participants – smaller organisations appear to start trading by opening a café.

Turnover and gross profit from retail are typically larger than for cafés. Gross profits for both types of trading activity are lower than industry-wide standards – there is a likelihood that shops and cafés are making **little** or no **net profit**. However, they might be an important part of the **visitor experience**. The relatively high performers in the cohort, whether for shops or cafés, do suggest that it is possible to increase gross profits – but it is far from clear that there are economies of scale. Profits do not appear to increase in percentage terms as total income from these activities grows. This is important: if the café or shop makes a net loss, increasing the scale of activity risks amplifying the loss. Understanding costs by **collecting** good, accurate **quality data** is **essential**.



Looking outwards: benchmarking against other non-profit organisations



Benchmarking cafés and shops: establishing what is normal

To help **managers and trustees** think about what is possible, it's helpful to look **outside** the heritage sector to see what other similar organisations achieve with retail and catering activities. To do that, we have constructed a **comparator group** of non-profit and voluntary organisations that run cafés and shops as a secondary income stream. We have called this the **Cause4 benchmark group**.

The comparator group has data for 35 organisations with cafés, 24 organisations with shops, and 11 organisations with both cafés and shops. The comparator group has not been selected to be best in class – as this might not be realistically achievable. Instead, the *Cause4* benchmark group has been chosen to indicate what is **normal** – or sensibly achievable.

Cafés: potential to increase turnover

When we compare the Heritage Compass participants to our *Cause4* benchmark group, the data confirms what we saw earlier: Heritage Compass organisations seem to be doing relatively well in relation to shops and retail. For our *Cause4* benchmark group, shops typically contribute less to turnover in absolute terms (over £1,600 a year less), while they account for a slightly smaller share of turnover (9%). For organisations with both retail and catering, the Heritage Compass group also generate a greater percentage of turnover than in the *Cause4* benchmark group. This might suggest **limited scope** for **growth** or improvement in performance for shops and retail.

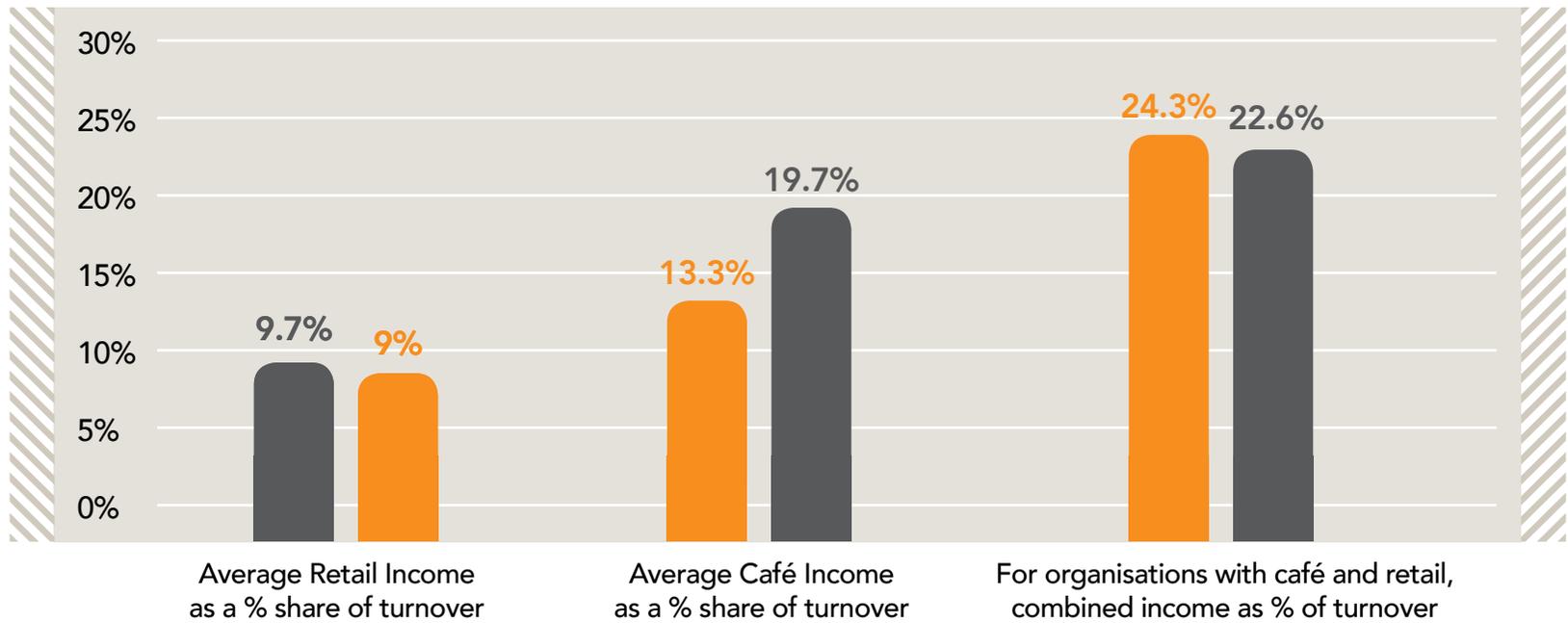
Cafés and **catering** present a different picture. The average contribution to turnover from cafés for the *Cause4* benchmark group is almost 20%, over six percentage points **higher** than the Heritage Compass participants. More

strikingly, the income from a typical café is over £30,000 per year higher, at over £38,000 per year. The average income from cafés for the *Cause4* benchmark group is also much higher, but this is due to a handful of larger organisations. Nevertheless, this suggests that cafés are a potential **area for growth** for the Heritage Compass cohort, perhaps confirming the potential shown by the small number of **high performers** in that group.

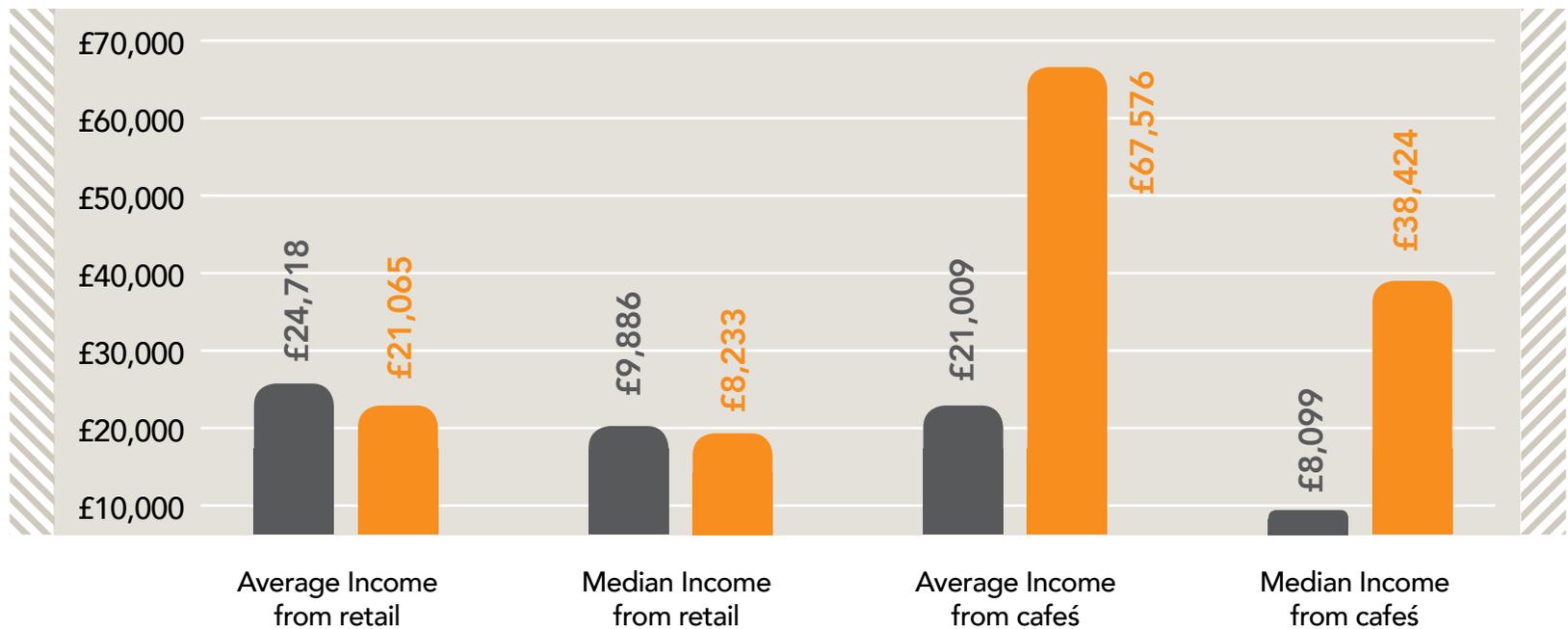
Heritage Compass shops generate the same percentage gross profit as the benchmark

The typical or median gross profit from shops and retail is 56% for the *Cause4* benchmark group, one percentage point greater than for the Heritage Compass participants. The average benchmark profit (48%) is lower than the median – a reflection that some benchmark organisations are **losing money** on shops and retail on the gross profit measure. Retail remains a **potentially challenging** area of activity.

Shops and cafés: contribution



Income from shops and cafés



There may be opportunity to generate more profit from scaling up

However, the *Cause4* benchmark group generates **more profit** in absolute terms: their retail operations are larger. The *Cause4* benchmark group organisations for whom we have data for revenue and expenditure typically generate almost £7,500 per year in gross profit, almost twice more than the Heritage Compass group (£4,000 per year). Their typical turnover is higher for the benchmark organisations for whom we can calculate

gross profitably, at almost £14,000. Unlike the Heritage Compass participants, this group has found that **scaling up** retail is more **profitable** in percentage terms.

Heritage Compass cafes are less profitable than the benchmark

Organisations in the *Cause4* benchmark group typically make a gross profit margin of 45% on cafés and catering, compared to 29% for the Heritage Compass participants. In cash terms, the median gross profit is much higher

for the *Cause4* benchmark group, at over £16,000 per year. This compares with £2,200 for the Heritage Compass participants.

The relative **profitability** of cafés is perhaps the **main message** to take away from comparison with a benchmark group of organisations. Benchmark organisations are running cafés at a larger scale, with an increased level of profitability. This might reflect different **constraints** or **enablers**, such as location.

Median	Heritage Compass participants	<i>Cause4</i> Benchmark Group
Cafés Annual Turnover (£)	£8,099	£38,424
Shop/Retail Annual Turnover (£)	£9,886	£8,233
Cafés Gross Profit (%)	29%	45%
Shop/Retail Gross Profit (%)	55%	56%
Cafés Annual Gross Profit (£)	£2,236	£16,211
Shop/Retail Gross Profit (£)	£3,824	£7,551

Comparison of Heritage Compass and Wider Benchmark

See glossary on p26



Discussion: the financial challenge



Most shops or cafés are likely to be small

The cafés and retail operations operated by the Heritage Compass and the Cause4 benchmark group are all what might reasonably be described as small scale. One recent estimate suggested that the average independent coffee shop in the UK generates between £100,000 – £150,000 – with a relatively small proportion of coffee shops earning more than this.⁶ 94% of retail businesses have fewer than ten staff in the retail sector, with three-quarters having no employees.⁷ For most, running a café or a shop is a small-scale activity.

The scale of operations described in this guide are not unusual in the non-profit sector. In the case of cafés, research by **MyCake** on cafés run by social businesses suggests that a café designed to make a net profit needs to turn over at least £65k per annum – a much higher level than many of the operations in either of our groups. The study also found that cafés with a turnover of less than £35k rarely generate a surplus to be used

on other activities. In such cases, the question is whether these activities add to the **organisation's mission**. This might be by contributing to the visitor experience or by involving volunteers.

Gross – and net profit

Our analysis suggests that gross profit typically ranges between 29 – 45% for cafés and 55 – 56% for shops. Unfortunately, we cannot calculate net profit because organisations rarely produce **activity-based costing** that would allocate costs such as heating or lighting to the activity – in this case, the shop or café. This is a good reminder that any successful trading activity needs good **quality data** on real costs.

The **less good** news is that one guide recently estimated that the gross **profit** on a cup of **coffee** should be around 90 – 95% – with raw ingredients costing about 10p per cup. A gross margin at this level allows sufficient margin for rent, labour and other expenses. These may well be less of an issue for heritage organisations who already own their building or engage

volunteers, though these still have costs. One firm of accountants argues that the gross profit margin should be at least 75%. In other words, every item must be sold for at least **four times** the **cost** of materials and ingredients.⁸ However, our benchmark data suggests that they are not making 90-95% gross profits.⁹ Although shops and cafés may be contributing to the mission and increasing turnover, it is far from clear that they are contributing a surplus that can be applied to the mission of the organisations running them.



The challenge of scale

In the case of coffee shops, the **typical customer** spends £4 per visit, of which £2.30 is spent on an average coffee. Our data for Heritage Compass cafes suggest that the typical or median turnover of a café is £8,000 – which suggests 2,000 customers a year. Operating at the median income level for the *Cause4* benchmark group (£38,500) would require 9,500 each year. To turnover £65,000 per annum – the MyCake estimate of the **turnover level** needed to make a **net profit** – would require 16,250 paying customers a year (or 312 per week). Do these figures fit with your expected **visitor numbers**, bearing in mind not everyone will make a purchase?

The following question is how many **visitors** are likely to **visit** your café – and how much will they **spend**? Does that justify expenditure (if any) on wages or investment in equipment? A common reason for the **failure** of coffee shops is **overspending** on equipment.

Location, Location, Location

One wholesaler to the coffee industry argues that one of the single most **important factors** in the success of a coffee shop is **place**.¹⁰ This includes working out whether there is any **passing trade**. Is your shop or café likely to generate sufficient sales from the number of people visiting? And does the location within your venue **maximise the chances** of visitors spending money with you?



Conclusion: five valuable questions to ask yourselves



For any manager or trustee thinking about the role of a café or shop in their heritage organisation, we believe that there are five questions worth asking when either deciding to go or ahead with a new initiative or judging the performance of an existing operation:

Why are you doing this?

Why is your organisation either running or planning to run a shop or a café? Is the main reason to profit from the activity to subsidise other activities? Or is the primary purpose to deliver social impact, whether by contributing to the visitor experience or giving people an opportunity to take home products relating to your mission? The answer is rarely one or the other – but the implication is that you need to be clear whether the primary measures of success relate to turnover and profit, or impact. This also impacts who you are targeting – regular visitors with plenty to spend or those who might be experiencing your work for the first time?



How large do you want this to be?

How big do you want the shop or café to be? How much profit or social impact do you want the activity to generate – and if that is larger than what you are currently doing, what is required to scale up? Does increasing the scale of your shop or café require an investment commensurate with the increase in profit or impact? And is the scale of operation sufficient to contribute to other activities?



Why would someone spend money in your café or shop?

What is the value proposition of your shop or café? Making a profit and delivering an impact is hard. Are you clear why people would come to your shop or café and buy your products? Have you got any market research, however simple, telling you what potential customers want and what they are prepared to pay?

Intrinsically linked to the question of value is *where*. Where the café is located within your building matters; and has a big effect on how casual customers will find you. Are you in a location – including within a heritage space – where there is likely to be sufficient passing trade?



03

Have you got a business plan?

Are you clear about your business model for the shop or café, including your costs? Do you have the skills and expertise to run a café or shop? Is your model based on paid staff or volunteers? There is a limit to the size and scale of café operations you can run with an entirely voluntary workforce.



04

Will the returns justify the time and investment needed?

What is the opportunity cost of devoting management time to running a shop or café? Would your time be better spent doing something else that delivers a more significant profit or a bigger impact? If visitors increasingly expect to visit a shop or café as part of the experience, is this something you can't not do? If you're not sure about any of these, could you experiment by learning from the pop-up shop approach (temporary retail spaces, increasingly used by brands to test new ideas or markets)?



05

Resources

Good practice guide to running a community café:

<https://www.wyeparishcouncil.gov.uk/uploads/running-a-community-café.pdf>

HELP! I'm Starting a Coffee Shop Business:

<https://www.stmartinscoffee.co.uk/startacoffeeshop>

How to Plan For a Financially Successful Coffee Shop:

<https://perfectdailygrind.com/2019/02/how-to-plan-for-a-financially-successful-coffee-shop/>

How to set up a coffee shop or tea room:

<https://www.coffeeshopsetup.co.uk/advice/>

Making It As A Community Café:

<https://4lunch.co.uk/community-café/>

Set up a pop-up shop:

<https://www.nibusinessinfo.co.uk/content/set-pop-shop>

Starting a charity shop:

<https://www.charityretail.org.uk/starting-a-charity-shop/>

The essential guide to setting up a pop-up shop in the UK:

<https://smallbusiness.co.uk/the-essential-guide-to-setting-up-a-pop-up-shop-in-the-uk-2545720/>

Trustees trading and tax: how charities may lawfully trade

<https://www.gov.uk/government/publications/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35/trustees-trading-and-tax-how-charities-may-lawfully-trade>

The Ultimate Guide to Pop-up Shops:

<http://www.danellsandbewley.com/pop-up-shop-ultimate-guide>

Glossary

Median: the 'middle' of a list of sorted values. The median is sometimes a better guide to the middle than the average, which might be skewed by a small number of high or low values.

Upper Quartile: also known as the third quartile or 75th percentile. When a list of values is ordered from lowest to highest, three-quarters of the values are below the upper quartile.

Mean: also known as the average, the sum of a list of values divided by the count of values.

Benchmarking: the practice of comparing practices or performance data to industry-wide standards, often high performers.

References

1. Jisc (2012) [What is benchmarking?](#)
2. Eco Age (2019) [Our Favourite Community Cafés in the UK](#)
3. Ethical Consumer, the Green Shopper: <https://www.retailresearch.org/ethical-shoppers.html>
4. Deloitte: [Retail Trends 2021: following a year like no other](#) For a longer-term view of how
5. Not all organisations in the cohort publish accounts, such as those that are part of local government. Some organisations publish accounts that do not include data on income or turnover. We have also removed several very large organisations where cafés or retail are incidental to the work of the organisation.
6. <https://esquirescoffee.co.uk/news/how-profitable-coffee-shops/>
7. <https://researchbriefings.files.parliament.uk/documents/SN06186/SN06186.pdf>
8. <https://www.sage.com/en-gb/blog/how-much-profit-coffee-shops-annually/>
9. <https://www.coffeeshopsetup.co.uk/advice/>
10. <https://www.stmartinscoffee.co.uk/startacoffeeshop>

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