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# The Latest Entrepreneurial Fantasy Is Selling Cupcakes



Courtesy of Lovely Confections Bakery

Lovely Confections Bakery in Denver has to sell 2,800 cupcakes a month to cover expenses.

By [ELIZABETH OLSON](#)

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Move over restaurants and bed-and-breakfasts. A new fantasy seems to have taken hold for people who long to own their own business: the cupcakery.

There is no Cupcake Manufacturers Association keeping count, but

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anecdotal evidence indicates that stand-alone cupcake shops have been

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spreading not just in the acknowledged cupcake meccas of New York and Los Angeles but also in Boston, Denver, Austin, Tex., and lots of smaller places. Nationwide, cupcake sales, according to the market research firm, Mintel, are projected to rise another 20 percent over the next five years at a time when other baked goods are expected to grow in the single digits.

“Cupcake Wars,” a series pilot in which four bakers vie to create the most interesting concoctions, will soon have its debut on the Food Network. “[Martha Stewart’s Cupcakes](#)” (Clarkson, Potter), a collection of 175 recipes, was published in June, and spent 11 weeks on The New York Times best-seller list. And the most popular of the cupcake blogs, [Cupcakestakethecake](#), is visited by some 9,000 people a day. At least a dozen blogs chronicle each new flavor — from bacon to s’mores — as well as the best frostings, the quirkiest decorations and the newest twists (so far, the meatloaf cupcake with mashed-potato frosting seems to have been contained within Chicago).

New York’s [Magnolia Bakery](#), which helped set off an earlier cupcake craze when its treats appeared in a “Sex and the City” episode, is now expanding operations into Los Angeles, where its \$3 red velvets and devil’s foods will compete with the chai lattes and ginger lemons of [Sprinkles Cupcakes](#), which is based in Beverly Hills but has owner-operated shops in six other cities and plans to open in far-flung locales like New York, London and Tokyo.

“Cupcake stores are taking the place of ice cream stores,” said Adam Borden, whose Baltimore-based [venture capital](#) firm, [Bradmer Foods](#), specializes in food-focused enterprises. “Cupcakes aren’t seasonal like ice cream, and they appeal to people who want the authentic experience. They have an allure based on nostalgia.”

All of which suggests a couple of questions: How many cupcakes do you have to sell to pay the rent? And are cupcakes a viable business? These are still very early days in the Great Cupcake Rush, but the answers appear to be, respectively, a lot and maybe. (What do you think? Click [HERE](#) to leave a comment.)

Thus far, there seem to be four basic cupcake business models:

### **The Chain**

Founded by two married former investment bankers, Charles and Candace Nelson, Sprinkles is looking to grow. The couple spent two years working on their recipes before opening their Beverly Hills location in 2005. “You have to have a great product, brand and location and then it can be very scalable,” said Mr. Nelson.

Sprinkles is slated to open three more stores next year. Seventy percent of its business comes from walk-ins, so location is crucial. Mr. Nelson declined to say whether the individual stores or the company as a whole had achieved profitability, but he did say that Sprinkles had a 20-year business plan and was committed to the long haul.

### **The Web-Only Store**

Danielle Buckley got her start in June 2008 by writing a blog tracking the growing cupcake scene in the Washington area, where there are nearly a dozen cupcake bakeries. She quickly decided she was as interested in baking cupcakes as she was in writing about them — but she decided against building a physical store.

Instead, she sells her cupcakes online at [delleicious.com](http://delleicious.com). She bakes them to order on Monday nights using the kitchen in a Rockville, Md., cafe (in exchange for which the cafe gets two dozen cupcakes to sell to its customers).

Delleicious cupcakes are now available in parts of Maryland, Virginia and Washington. Ms. Buckley sells about 15 dozen a week and says she’s making money — but not enough to quit her day job. “I need a steady paycheck and benefits,” she said, so she’s keeping her job helping to manage contracts for the federal government.

### **The Cupcakes and More Store**

In 2006, selling 20 kinds of cupcakes, Tiffany Bacon, a former software entrepreneur, opened [Toot Sweet Cupcakes](#) in Austin, but quickly decided that she wasn’t going to make it on cupcakes alone. After four months in business, she started selling lunch fare, too.

Last year, Ms. Bacon and her husband rented a new kitchen near the store, equipping it with 80-quart mixers and other professional baking items they bought at auctions. They also fixed up an adjacent room where Ms. Bacon home-schools her six children. “They pitch in and help on big orders,” said Ms. Bacon.

She has the backing of a big-time investor — Donald Yacktman, the once high-flying [mutual fund](#) manager who now runs an Austin-based investment fund. Mr. Yacktman first lent Ms.

Bacon \$5,000 to buy a professional oven and mixer. Later, he committed a sum in the mid-five figures for a 25 percent stake in the business. "I was so impressed with her energy and work ethic," he said. "Plus, I sampled the product."

Ms. Bacon pays her \$2,400-a-month rent by selling an average of 10,000 cupcakes a month. She charges from \$1 to \$2.50 a cake, depending on the size. Business had been increasing 300 percent each month until last spring, when [Dell Computer](#) shut down a nearby manufacturing operation. After that, business fell off 10 percent in June.

Ms. Bacon and her husband, who works with her, take a combined salary of \$36,000 to \$50,000 a year. Any extra money is rolled back into the business. "There are no vacations," said Ms. Bacon. "We're working 80-hour weeks."

### **The Sole Bakery**

Cupcakes began to fascinate Porche Lovely during a stint as a prep chef on the Food Network's "Sugar Rush" show. She decided she wanted a hands-on enterprise. "I wanted a kinder environment than the stress of a commercial kitchen," said Ms. Lovely. "And I wanted to build equity and set my own rules."

She invested \$62,500 to overhaul and equip a storefront, now [Lovely Confections Bakery](#), in the gentrifying "Blue Bird" district of Denver. She bought her 1,400-square-foot space for \$300,000, financing her efforts in part with a \$50,000 credit union loan and \$50,000 from the sale of her home after her divorce. In August, her sales rose 30 percent over the same month the previous year.

For each cupcake she sells, Ms. Lovely figures she spends 60 cents on ingredients, 57 cents on mortgage payments and utilities, 48 cents on labor, 18 cents on packaging and merchant fees, 16 cents on loan repayment, 24 cents for marketing, 18 cents for miscellaneous expenses and 4 cents for insurance. That totals \$2.45, leaving a potential profit of 55 cents on each \$3 cupcake.

So far, the per-cupcake margin is going to pay down start-up expenses. She's been selling the 2,800 cupcakes a month she calculates she needs to sell to cover her costs — she's taking only a small salary for now — but she says it's too early to predict when the store will turn profitable, in part because of the economy and in part because she fears losing business to rival cupcake entrepreneurs.

Ms. Lovely is in the process of rebranding the shop to overcome what she calls "a typical

rookie mistake” of underestimating “the power and importance of branding and marketing.” She said she had to do more to tell customers that her cupcakes were made from organic, local and natural ingredients.

“I don’t use mixes or cut corners on ingredients,” she said. That’s a message that she’s refining with the help of [Section 45](#), a Denver marketing company that has been donating its services and helping create a new logo, signs, business cards and online presence.

The rebranding introduction should get under way by mid-December. Ms. Lovely said the store required the same hard work, endless hours and investment of any small business. She spends 80 hours a week baking and minding the shop, noting ruefully, “This is that \$10-an-hour job you didn’t think you’d ever have again.”

It’s uphill, she conceded, adding, “I still live in my brother’s basement.”

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