



Delivering better business information for publishers

An independent review by Richard Balkwill of Copytrain

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Publishers are having to adapt quickly to the impact of the Internet on their businesses: the creation, delivery and consumption of books, journals, and other information resources. Most information providers are considering how their traditional print-based products can be re-purposed to commercial benefit. At the same time, they want to minimise risk and experiment as safely as possible with new business models for the creation and sale of these products through an increasing diversity of offline and online channels.

As publishing business owners and managers survey these opportunities – online trading and e-books, for example – they also need to review how effective their existing systems will be in continuing to support that business, and how responsive to change those systems are going to be. How can publishers evolve in this way and embrace this era of radical change without harming the successful models they have already built?

Business information inevitably focuses on **finance** – money, margin and cash flow. Directors, managers and owners of publishing businesses, especially small and medium sized enterprises, are used to managing the basic finances of their businesses – the daily reality of access to cash. They see and respond to printers' invoices and quarterly distribution charges, monthly salaries and annual royalties. They look closely at unit sales and revenue, and celebrate the arrival of a large cheque from the sale of some subsidiary rights.

This independent review has been written for busy publishing sector managers or directors who, in increasingly complex and economically challenging trading conditions, would like to be able to answer business management questions such as the following better or more easily than they can at the moment:

- How well is our business doing?
- Which of our publications have been successful?
- How effective are the criteria that we employ to measure that success?
- Are our income and expenditure systems well linked?
- Can we handle schedule and stock control issues easily?

A clear picture of your business?

How clear a picture does the proprietor have of the overall health of his or her business? How easy is it to spot overall trends based on different sets of financial data? Different publishing departments can easily devise their own programmes, budgets and reports, and these can meet the specific needs of the people working in those departments. However, painting a bigger picture is a much more challenging and time-consuming task for senior managers if these systems are not effectively linked to each other, or integrated with management accounts.

What is missing?

So, while the profit and loss account may be a useful summative tool from which to predict future budgets or revise forecasts, what is often missing is a day to day awareness of the way key ratios are moving – even basic ones, such as margin or return on investment, or the relationship of cost of sale or overhead to revenue. Balance sheet data such as the way debtor days are moving, or the increase (or decrease) in stock turn, are not always easy to spot.

Questions to ask yourself

AVATAR is an integrated publishing management system that can both connect and enrich financial and other business information for managers across a company. To understand its potential value, it is worth considering more specific questions such as the following:

- Can I easily find out what average discount I am giving to my suppliers on a particular section of my list, for both new and backlist titles?
- How quickly can I tell if publications are meeting gross margin targets?
- Can I tell which sales channels are the most productive, and then rank my ten best-performing accounts?
- How does my year-end ratio of stock to sales compare with last year's?
- How do I schedule new titles, and how easily can I measure the time it takes to turn work-in-progress into finished stocks?
- Do the budgets and reports for my cost centres (e.g. advertising and promotion) work to the same system as my profit centres (e.g. revenue and cost of sale)?
- What percentage of retained profit (or contribution) was represented by other (non-sales) income?
- When did I last undertake a rigorous valuation of my stocks?
- Can data created in one department be easily used by other departments?

Maybe you found some of these questions difficult to answer. If you could only find out the answers by delving deep into your existing reports, or by spending time trying to analyse them (or getting members of your staff to do this), then it would be worth considering the benefits that could accrue if you installed an integrated system such as AVATAR in your business.

Return on your investment

You could save a great deal of time, as well as gain invaluable new insights into your business, by adopting an integrated business management system. As a quick check of the potential benefits, ask yourself these two questions:

- How much time do our financial staff spend preparing our monthly management accounts?
- How much time do I/we spend making decisions based on those accounts that directly affect the profitability of my/our business?

In many respected and successful businesses, the relationship between these activities is 80:20 – in other words, finance people or teams spend four times as much time collating information and preparing accounts as the directors or managers spend evaluating them and improving the health of the business they are running.

Installing an integrated system like AVATAR would free up a great deal of time for both finance and management teams and allow more opportunity for creative and strategic activity. The initial cost of purchasing and implementing the system is likely to be quickly offset by the immediate benefit of time and insight that each group gained.

A complete business picture

It is not just financial information that managers need in order to make critical business decisions. Scheduling and critical path analysis issues directly affect things like cash flow and the availability of funds and resources. Publishers are constantly being interrogated about bibliographic data, and it is clear that a comprehensive management system which can also handle this extends the range of possible markets and enables publishers to reach new customers.

In addition, digital publishing generates new data about customers, and also provides an extended source of key contacts, whether they are potential suppliers (such as authors), customers (like researchers), or stakeholders in government or other public bodies. AVATAR can manage these contacts, extracting information based on buying and selling histories by title, author, product group and series for mail-shots or analysis, and add the dimension of time to a valuable event-management process. This can bring up key dates or trigger action, especially when linked to other fields, such as stock levels for considering reprints.

The value of an integrated system

Having an integrated system enables both financial and non-financial data to be connected in a valuable way by raising questions in one field of the business that links to another, or may have important knock-on consequences elsewhere in the business.

There are really only two key criteria that you need to consider when evaluating how effective a business management system is:

- Does the system minimise our risk and cost by eliminating time-consuming duplication and manual manipulation of data?
- Does the system maximise our business opportunities by enabling us to interrogate our data and produce reports and forecasts easily but also flexibly and comprehensively?

The AVATAR system offers a broad range of modules from Title Management through Stock Control to Rights and Royalties. These can be used as separate 'off-the-shelf' components. However, the single most valuable feature of the system is the way these modules are designed to be linked to AVATAR's core financial management and reporting capabilities. This connectivity enables hard-pressed managers to analyse data in different parts of their businesses simultaneously. This, in turn, can enable the same managers to both monitor margins, performance, and lifetime profitability, and to make better informed decisions more quickly and more reliably.

What financial information do publishers need?

1. INCOME AND SALES LEDGER

Sales revenue is the main source of income for most publishing companies, whether from units of products such as books, or from licensing and subscription income arising from the pre-sale of serials or online products. In each case, time is critical: either knowing how long it takes to turn invoices into cash, or correctly apportioning annual subscription income to monthly sales of individual issues. These time-sensitive elements need to be set alongside the totals budgeted for each month, or other period.

The principal use of the sales ledger is to invoice cash or account customers and to collect the money they owe. As with any accounts package, AVATAR can break this customer-facing data down in many ways, and rank it according to need – by size of account, location, creditworthiness, or age of debt. The system can also give historical information about whether business with a particular client has grown or is falling.

For internal review, the system typically reflects the protocol of P & L accounts – there can be both a predictive or forecasting use, and a summative or historical component. Managers put together annual sales budgets and then need to set these against monthly (or more frequent) reports that compare performance against budget.

Additionally, companies will want to adjust budgets by producing revised forecasts, often quarterly.

Any accounts package will incorporate both a year-to-date and full year feature, as well as comparing the budget with actual. It will also provide comparison with the same data in the previous accounting period (or with last year). However, managers will often want to see the past history of such data over three or even five years and longer. This historical element is a standard feature of the AVATAR system.

Breaking down these revenue totals is also a standard feature for senior managers, who need to see performance in areas or regions separately and then cumulatively listed. These breakdowns can also be matched to individual accounts or to the individual managers responsible for them. Comparisons with other areas, other accounts, and with performance in past years (or other periods) are also standard elements. The performance of sales personnel in particular areas may be linked to commissions or bonus payments.

The flexibility of the AVATAR system enables external customer data – how much has been sold to whom – to be linked to internal performance review – how products have sold against budget. The Project Costing Ledger enables this revenue information to be set against title costing data produced by editors and production staff, leading immediately to a margin reporting feature.

This instant connection between income and expenditure is one of the most powerful features of the AVATAR system, and enables managers to monitor performance and profitability without lengthy reconciliation of separate reports.

2. RIGHTS AND OTHER INCOME

Managers need to produce budgets and reports that track other income derived from sales of subsidiary rights, both territorial, translation, foreign and domestic. There are important time issues to be considered here. Revenue will need to be linked to titles or products, but this income can arrive a long time after sales revenue from the title has been recorded, and is not always a factor of a product's initial profitability.

Much of this income may be international, and managers will want to compare this revenue with the high costs of overseas travel, or make a connection to the level and value of export sales in the same areas, comparing rights revenue with turnover derived from existing stocks. Ranking territories to see where the best rights income comes from is a logical performance review. Setting this table against a similar one for export sales can be a useful step towards determining rights and export sales staff itineraries, and the cost-effectiveness of their trips.

Territorial restrictions on licences, the staged payment of advances, the checking of prompt royalty payments in accordance with contract – all these standard features of rights business need to be provided in a system, and AVATAR does this and more.

Managers can also judge how rights income contributes to the life-cycle profitability of titles that otherwise might be judged unsuccessful if sales revenue alone was considered.

3. PRODUCT COSTING AND STOCK CONTROL

Publishers want to control the raw production costs of a new title, the cost of sale element of the P & L. The time lag between paying printers' (and other suppliers') bills and getting cash in from bookshops or other retail accounts is the crux of the publishing business, with so many aspects of it dependent on cash and monitoring cash flow.

In many sectors of publishing, the high initial cost of a new product can be set against the much better margins made by reprints. UK publishers do not generally amortize plant or non-recurring costs over several printings, or more than one edition. But systems still need to look at the lifetime cost of a title, and take account of the one-off charges – typesetting, design, colour origination – as well as the recurring PPB (paper, print and bind) costs. This was probably one of the first areas to which spreadsheet technology was first applied. Along with sales figures and stock figures, departments have been generating their own sectoral data for years.

The huge advantage of an integrated system such as AVATAR is that it is now possible to connect this data – title costs, sales revenue, stock values – and to make not only margin calculations for the P & L, but balance sheet entries to reflect the time it takes for products to move from work-in-progress to finished stocks, and to analyse sales life-cycles to produce crucial return on investment ratios.

The same system can of course deal with stocks and stock control and bring forward alerts for reprints. Drilling down in this module enables the user to look at the ratio of stock value to turnover, to build write-down review programmes, and to audit more accurately the true value of the stocks held in the warehouse. These in turn can be compared to storage and distribution charges, and judgements made about the length of time stock should be held. Key business decisions that might involve a move to Print on Demand (POD) and the virtual warehouse are facilitated by the wealth of reports and business intelligence that AVATAR is able to provide.

Publishers also need to monitor stock levels and control stock movements, and they need to be able to act quickly and flexibly whether data about stock is generated and modified in-house, or produced and managed by third parties. For many publishers, outside distributors will handle sales and provide regular stock and sales reports, and a critical component of AVATAR is the ability to incorporate and integrate this third party data into internal systems, and trigger action points (such as reprints) elsewhere in the company.

4. ROYALTIES

Author royalties are normally included with cost of sale to make what has become most publishers' favourite ratio – gross margin. Although in the end PBIT (profit before interest and tax, or contribution) and return on investment are regarded by senior finance staff as a much more important measure of success, margin remains a significant starting point. The annual (or semi-annual) payment of royalties may put a strain on cash flow, but the parallel monitoring of sales with cost of sale and pro-rata royalty payments rightly remains at the heart of what publishers first look at to measure performance.

For companies paying substantial advances, the time dimension again becomes critical and the balance sheet value of an advance needs to be monitored closely. AVATAR provides managers with the ability to summarise and analyse routinely the amount of cash used and the outstanding unrecovered value of this asset, enabling judgements to be made about the timing and extent of write-down.

The link between author royalties and money due to authors from rights (as opposed to sales) business has long been one that has had to be made manually, as separate departments often do not have linked or compatible systems. A modern publishing system really needs to be automating these kinds of functions. AVATAR is equally flexible when it comes to recording royalties from foreign or other rights sales, and sharing these revenues with authors in accordance with the splits agreed in their contracts.

5. OVERHEADS

Most directors and financial managers concentrate on the ratio between margin and overhead to reach the key commercial measure of any business – PBIT or EBITDA (profit before interest and tax; earning before interest, tax, depreciation and amortisation).

Permanent staff in publishing businesses are often the most expensive element of the overhead, so systems normally start with budgets and reports built around People Cost Centres. These are often based on sectoral or functional responsibility – editorial, production, sales, marketing, rights, and so on. Because in accounting terms these costs are on the 'expense' side of the ledger, one of the problems publishers face is judging how effective these people and their costs are as a measure of profitability. This is reinforced by the division between these separate departments into virtual silos, accountable to themselves, but not to each other, and not often related to title cost.

Apart from sales revenue being connected to the cost of the sales staff (and thus a crude measure of their effectiveness), a true picture of the profitability of titles has long been difficult to achieve. It has always been hard to allocate accurately people costs in the investment (editorial, design, production) side of the business to the products they are generating. Few publishers keep a log of editorial time spent on particular projects in order to measure how effective that editor has been. The need to charge out fees by

the hour or day, a system familiar to lawyers and accountants, is rarely encountered in publishing companies.

AVATAR has the capacity to set the overhead costs (including specifically people costs) against the value of the sales of titles commissioned by departments or even individuals. This can be a key way of measuring productivity, and comparing the performance (and costs) of different parts of the business. This is another example of AVATAR's ability to link income and expenditure more closely, and thus to monitor and measure the effectiveness of money spent.

6. INDIRECT COSTS

Standard accounting packages already deal with re-allocated or per capita costs, and the accounts department will already be focusing on the extent to which departments shoulder a portion of these central and often inflexible costs. In smaller companies, the AVATAR package can be useful in monitoring both the amount being paid for these functions (especially if they have been contracted out), as well as the ratio of this expense both to product cost of sale and to the people costs incurred by those directly involved in generating and distributing the company's products.

Once again, it is the links between these figures, and the speed with which it is possible to compare them to budget, to previous years, and to other parts of the business that represents AVATAR's power and potential. The integrated nature of the system removes the sometimes laboured processes needed to contrast sets of figures that have not in the past been seen as related to each other, and which have been created on spreadsheet systems independent from and incompatible with systems elsewhere in the business.

What other key business information do publishers need to manage?

The key business processes that otherwise continue to preoccupy publishers relate generally to the scheduling and costing of new titles and reprints, the creation, management and communication of bibliographic data (including ONIX-related functions), and contact and event management.

1. SCHEDULING

The ability to manage and control the planning and production schedule for multiple new titles and reprints is naturally a central feature of the AVATAR system. Setting this against staged financial investment, or determining optimum credit periods, can give additional value, as well as connecting the time-related data of schedules to the cash flow requirements of income and expenditure. Other processes that need monitoring over time such as the scheduling and effectiveness of mailing or promotion campaigns are natural extensions of this capability.

2. BIBLIOGRAPHIC DATA

As well as standard forecasts and reports for stock levels and control, the ability to use and share ONIX-type processes (online information exchange) is built-in, and AVATAR can readily accommodate whatever granular level of identification your publications require – whether it is a product code, DOI, or 13-digit ISBN.

The value of these data is both internal (when linked to product cost centres) and external, especially in answering enquiries from customers regarding the identity of available products.

3. CONTACT AND EVENT MANAGEMENT

In businesses where contacts can be both suppliers (authors) and customers (subscribers), there is considerable potential for matching and ranking the value and role or importance of contacts in your business. AVATAR can be used to build up data and profiles on suppliers, sales outlets, or promising market opportunities and leads, as a completely integrated part of the system.

Event management is also a valuable feature, whether setting up a ‘bring-forward’ system for stock levels, or to trigger reprints, or devising a critical path analysis for a major conference, exhibition, or multi-item product launch.

How can publishers derive useful business intelligence from unstructured data?

There is a very wide range of standard reports available within the core AVATAR system. These can answer questions which managers already know they regularly need to ask. Detailed information is provided in a separate document entitled 'AVATAR financial reporting capability' available on the AVATAR website.

In addition, the AVATAR team has developed some rather smart mouse-driven and easy-to-use Business Intelligence tools, or ‘cubes’, specifically for the publishing industry. Using this Cognos-based facility, data that start as figures in tables throughout the core AVATAR system can be easily output as pie-charts or bar-graphs, with colours emphasising different performance aspects. Regional sales figures and margins for the month can be contrasted by sales person, by product, and by customer, for example.

This graphic re-presentation of data enables managers to spot information and exceptions that might not otherwise be obvious. Being able to interrogate data at will in this way is really something every senior publishing manager should be able to do in their business, but to do so requires a system that is capable of pulling disparate and unstructured data together into easy-to-interpret outputs. Enabling all of this is a real value-adding AVATAR feature and reviewing the pictures that can be put together using these BI tools may trigger questions you did not even know you wanted to ask. The subsequent answers will provide you with essential business intelligence.

Being able to review recent and past performance and inform future planning in this way can greatly help shape management decisions. Set alongside AVATAR's standard capabilities, this represents what could simply be described as a scalable, robust and reliable engine for generating comprehensive and multi-dimensional business information.

Conclusion

In these challenging times, an efficiently managed publishing business will work better than one that struggles to account for its activities. Having an integrated approach to managing your business data, including the ability to incorporate third party data with data from your own direct sales, web sales, co-publishing deals and so on will help limit exposure in uncertain market conditions.

Any system you adopt needs to enable you to achieve what can sound deceptively simple: minimizing unnecessary expenditure by cutting out the need for duplication and manual manipulation of data, or reducing to a minimum the time and effort you spend on calculating royalties. These two alone may well make all the difference.

The additional benefits of being able to relate product costings to sales analysis, for example, the benefits of being able to forecast more accurately based on a better understanding of past performance, and to be able to rely on your system's ability to generate reports with just the right information (and in the right formats) – these key and connected features are increasingly business critical.

With the combined impact of the Internet on the one hand, and a difficult economic climate on the other, a system such as AVATAR could be a sound investment. What managers need is a combination of a full range of information with an analysis that prompts those business questions that might otherwise be overlooked. Decisions based on this multi-functional system are likely to go further than mere calculations, and could add a dimension of business readiness that the present commercial climate so urgently requires.