

THE IRISH PUBLISHING INDUSTRY

COSTS AND PROFIT IN PUBLISHING

by

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It is reasonable to assume that the profession of scribe commenced with the first person capable of recording a message by means of symbols painted or etched on a flat surface. In spite of the occasional bad press - in Ancient Egypt it was claimed that to win a case a man needed "silver and gold for the scribes of the court"¹ the profession of scribe flourished to such an extent that about 250 BC Ptolemy I founded the great library of Alexandria where, "by training numbers of skilled scribes and exploiting the distribution facilities afforded by the commercial connections of their capital, Alexandrian publishers retained control of the greater part of world book production for more than two centuries."²

Suddenly the work of a scribe had moved a long way from men like the painter of signs who charged "thirty rupees for three lines minimum, one three-by-one-and-a-half plank, including nailing."³

The Emperor Claudius noted in his ghosted autobiography⁴ that the lowest value which could be put on the services of a trained clerk was fifty gold pieces annually, a huge amount of money to invest in the copying of works of literature in the hope of selling them at a profit. And this before the slave's master took into account the cost of maintaining the printing house, and the delays between completing a work, selling it and receiving the monies, with all the attendant costs and risks that that entailed.

Yet a man does not need to be rich to become a publisher; all he needs is a feel for books and for the trade. Seamus Cashman of Wolfhound Press talks about living and working in a Georgian garret, of seeing a be-furred lady delivered to his door by a chauffeured limousine and having this lady stumble into his mat recess and up the stairs to give him his big start - the publishing rights to all the books of Liam O'Flaherty.⁵ What a publisher in that position has to do is watch his pennies and keep on watching them when they become pounds.

The problem, if that is the right word, with publishing is that people tend to get into it for the most altruistic or selfish of reasons. Dermot Bolger started Raven Arts Press because nobody else would publish a book of poems he admired; Roddy Doyle self-published *The Commitments* and Patrick J Power *The End of the Honeyflow*. Steve MacDonogh and others started the Irish Writers Co-operative to publish new writers - including themselves.

¹The Usborne Book of the Ancient World, p.40.

²Encarta.

³R K Narayan, *The Painter of Signs* (Penguin).

⁴Robert Graves, *Claudius the God* p.357 (Penguin).

⁵Verbal reminiscence related to the author.

This almost haphazard approach to publishing worried successive UK governments to such an extent that they instituted a Price Commission report on the industry in general. The final report was lengthy, detailed and almost indigestible to the average reader.

Paul J Curwen, Senior Lecturer in Economics at Sheffield City Polytechnic, produced *The UK Publishing Industry* (Pergamon Press, 1981) in an effort to explain the main findings of the report in simple terms and to extend its findings for non-monetary trained publishers.

He found that "the industry is undergoing yet another of its alleged periods of impending doom... the Net Book Agreement, closed markets, Public Lending Right and copyright... the failure to develop an Industry-wide system of stock control; the unco-ordinated, ragged, and inefficient distribution system.. the failure.. to produce books quickly.. that by any criterion book production at present is excessive.. it is the young or unestablished novelists who will be the hardest hit."

Curwen tries to give an idea of industry-wide costs by means of a chart.⁶ Simplified, this shows:

Trade Discount	Author's Royalty	Unit Production Cost	Office Overhead	Net Profit Edition fully sold out
% <u>Retail Price</u>	% <u>Retail Price</u>	% <u>Retail Price</u>	% <u>Turnover</u>	% <u>Turnover</u>
30	10	20	40	17.1
35	10	20	40	13.8
40	7.5	20	40	14.1

On the first quick look it appears that even a smash hit of a book cannot make a profit on a discount of only 30% to retailers:

	%
Discount	30
Royalty	10
Production Costs	20
Overhead	40
Retail Price	<u>100</u>
	===

So where does the profit 17.1%, shown when Trade Discount is only 30%, come from?

You have got to look carefully to realise that Curwen shifted the goalposts across the line. There is an intermix of percentages: the first three are based on the retail price of the books, the last two on turnover, which Curwen defines as the retail price of the book net of trade discount.

⁶Curwen *The UK Publishing Industry*, p.24. *Table 15 Costs, Prices and Profits* (Pergamon Press).

Reworking our example above to show everything as a percentage of retail price, we now have:

Trade Discount	Author's Royalty	Unit Production Cost	Office Overhead	Net Profit Edition fully sold out
%	%	%	%	%
30	10	20	28	12
35	10	20	26	9
40	7.5	20	24	8.5

Curwen found that the average profit among the main UK publishers at that time was 10%. The highest was 29.1% and the lowest -32.1%.⁷ It would make you wonder why some people bother.

To put this in an Irish setting, there is no better example than that of Patrick J. Power's self-publishing of *The End of the Honeyflow and other stories*.

Typesetting and design cost £800, the print bill for 2,000 copies came to just over £2,000. Easons took 800 copies at a 55% discount on the cover price of £4.99, paying £1,796 to Power. Total sales to date from all sources were £3,550,⁸ giving Power direct sales of £1,754.

Overheads were therefore £750, based on:

Income	£3,550
Typesetting & design	£ 800
Printing	<u>2,000</u>
	<u>2,800</u>
Overheads	<u>£ 750</u>

If we assume that:

- # There were no returns by Easons
- # The books sold by Power himself were sold at full list price.
- # The Unit Production Cost is arrived at by dividing the typesetting and design costs (£800) and the printing costs (£2,000) by the number of books produced (2,000). That is £1.40 per book.
- # The contribution towards profit and overheads (costs not arising directly from the printing of the book) is the amount remaining from the sale price after allowing for the trade discount and the production cost of the books actually sold.

⁷Cuwen, p.29. *Table 17 Financial Ratios. Large Publishers.*

⁸*Books Ireland* October 1994, p.242.

Power's trading results were therefore:

	List Price	Trade Discount	Wholesale Price	Unit Production Cost	Contribution	Books Sold
	£	£	£	£	£	
Easons Wholesale	3,992	2,196	1,796	1,120	676	800
Direct sales	1,754	n/a	1,754	493	1,261	352
	<u>5,746</u>	<u>2,196</u>	<u>3,550</u>	<u>1,613</u>	<u>1,937</u>	<u>1,152</u>
Office overhead					<u>750</u>	
Profit on sales					<u>1,187</u>	

We now arrive at a position where Power actually made a profit on his trading.

Power overproduced in that he had 2,000 copies printed, not the 1,152 actually sold. The 848 remaining copies cost him £1.40 each or £1,187 in total. When you set that cost against his trading profit, you are left with a no profit, no loss situation.

Power overestimated his potential sales by 848 copies. Unfortunately it does not follow that if he had settled for printing 1,152 copies, he would have made a profit of £1187.

Typesetting and design costs of £800 would be incurred regardless of the number of books actually produced.

The most expensive part of printing is the setting up time, which would have remained unchanged.

Power has a potential future profit of £4,232 if he can sell the remaining books at full list price.

Power also failed to take into account three other crucial costs:

The first is royalties.

If Power had sold his book to some other publisher, he would, reasonably, have expected to be paid royalties on the books sold. At 7.5% on the List Price this would have come to £431.

Adjusting for this the position would then be:

Profit on Sales		£1,187
Cost of unsold books	£1,187	
Royalties	<u>431</u>	
Trading Loss		<u>1,618</u>
		<u>£ 431</u>

The second cost overlooked by Power is the opportunity cost.

Dermot Bolger put it very succinctly when he said that "Raven [Arts Press] was providing 10% of my income and taking up 80% of my time."⁹ Or to put it more formally, the *opportunity* of publishing books *cost* Dermot Bolger money because it was taking up more of his time than the profits justified.

In Power's case, the *cost* of the time spent producing and selling his own book deprived him of the *opportunity* of using that same time to write another book - or stack shelves in a supermarket or work as a labourer on a building site or sit with his feet up and watch the world go by.

Assuming that Power had used that time to write a second book and sold it to the same publisher, then he could reasonably have expected to receive royalties from the second book of an additional £431.

The third cost is return on capital.

Power risked £3,550 to publish his own book. That same money could have sat safely in the bank earning him a risk free 5% return. Instead, that capital was invested in producing a book which might not have sold.

Logically, if you can get a risk-free return from the bank of 5%, then you would expect a much higher return - say 20% - if there is the likelihood of some or all of the money being lost.

The expected return on the £3,550 over a year would be £710.

So now, Power, instead breaking even has lost money:

Profit on sales		£1,187
Cost of unsold books	£1,187	
Royalties on book	266	
Royalties on unwritten book	266	
Return on capital at risk	<u>710</u>	
		<u>2,429</u>
Trading loss		<u>£1,242</u>

What Power did get was a wonderful learning curve and the incalculable pleasure of seeing his book in print and of people buying it.

Power's baptism of fire into the world of publishing closely matches the experience of his predecessors. Raven Arts Press "was never commercially viable but, according to Bolger, that was never the aim."¹⁰ Steve

⁹*Books Ireland* May 1994, p.119.

¹⁰*Books Ireland* May 1994, p.119.

McDonogh and his partners saw the setting up of the Irish Writers Co-operative as a gamble that only paid off because of their own unpaid efforts.¹¹

In the above cases, and in others, people saw a gap in the market waiting to be filled, and in particular a need for books written by the Irish for an Irish market.¹² In thirty years they have built this market up from almost nothing to one with a turnover of £48.4 million in 1997.¹³ Gradually over the years publishing houses came together to pool costs. The leaders in this field were Wolfhound, the O'Brien Press and the (now defunct) Dolmen Press, which shared a common marketing and distribution force.

The Irish Book Publishers Association, CLÉ (Cumann Leabharfoilsitheoirí Éireann) was founded in 1970 to formally represent the Irish publishing industry both at home and internationally.

By 1985 the Irish publishing industry had an annual turnover of £16.3 million and in 1987, CLÉ, with the assistance of various government agencies, commissioned a report *Developing Publishing in Ireland*. The brief given to the Charles Pick Consultancy, the authors of the report, "involved the development of ideas to boost the growth of publishing in Ireland, not simply to survey or reflect the present state of the industry."¹⁴ The report was issued in 1988. It found that the entrepreneur publisher's essential criteria were: "You have survived. You managed to pay your bills (or most of them)," and that, in many respects, profit was "the least important of the three questions."¹⁵ The report placed great emphasis on profitability and cash flow, and attempted to guide the entrepreneur publisher into a more realistic and cash-orientated way of doing business.

Among the various hints and aide-memoirs in the report was a costing sheet set out in Appendix 1 of the report, which should have been of inestimable value to the embryo publisher. Unfortunately, it contained some basic errors in layout and presentation and it took the author of this report, a trained accountant, an hour with a calculator to figure out what should have been self-evident.

The revenues and costs of the hardback book were shown in total; those of the paperback in hundreds of pounds. This was not made apparent on the face of the report, even though the two sets of figures ran in parallel columns.

The additions and subtractions of the paperback column as set out, were incorrect.

¹¹ *Books Ireland* April 1994, p.77.

¹² *Books Ireland* April 1995, p.90.

¹³ *Books Ireland* December 1998, p.335.

¹⁴ *Developing Publishing In Ireland*, p.12, s7.

¹⁵ *Developing Publishing In Ireland*, p.16, s11.1.

These are unfortunate mistakes because many of Ireland's leading publishers were involved in the preparation of the report and this costing sheet could be regarded as a representative averaging of the industry's actual results.

Recalculating this costing sheet and with some readjustment and restatement of figures, the profit and costs of the Irish publishing industry in 1988 appears to have been:

	%	%
SALES		100
Trade discount		<u>42.5</u>
Net receipts		57.5
Authors_ royalties	6.5	
Production costs	19.0	
Marketing and distribution	<u>11.0</u>	<u>36.5</u>
Gross Profit		21.0
Overheads		<u>13.5</u>
Net Profit		<u>7.5</u>

By 1994, six years on, the market of Irish books for the Irish had risen to £31.22 million¹⁶ and CLÉ considered that it was time for another report. This time the job was given to Coopers & Lybrand, Corporate Finance Service. It was issued in 1995 under the title of: *The Future of the Irish Book Publishing Industry. A Strategic Assessment by Coopers & Lybrand.*

The reason for the report and the message it contained must be called into question. Jeremy Addis in his "report on the report"¹⁷ appears to be of the opinion that the cardinal objective of the report was to justify and stimulate more active support from state and other agencies.

Certainly Coopers & Lybrand do not appear have made any great effort to have the report circulated. Queen_s University in Belfast does not have a copy, neither does the Linen Hall Library, Belfast, nor do any of the Library Boards in Northern Ireland. In fact, the lady who has run the Irish Section of the Library Headquarters in the Southern Education and Library Board, very competently, for many years had never even heard of it.

The report itself, while paying lip-service to the entrepreneurial spirit which created the Irish publishing industry in the first place, recommends that it grow and become more like British publishing houses. It gives insufficient credence to the fact that Irish publishers have an individual spirit and are not in any way corporate

¹⁶*The Future of the Irish Book Publishing Industry - A Strategic Assessment* by Coopers & Lybrand, p.5.31.

¹⁷*Books Ireland* September 1995, p.199.

men, and that the indigenous (their word) industry exists because the Irish do *not* want to be like the British publishers nor do they see profit as the main raison d'être.

Addis accepts that the report "presents a mass of useful facts and analysis, but so embedded in laborious verbiage and in such a complex structure as to be hard to digest." Statements such as "If publishers decide that the basic currency of their business is information not specific to delivery platforms, then an immediate need exists to review their commercial options and strategies"¹⁸ are - to mimic the somewhat pretentious language of Coopers & Lybrand - unlikely, in the main, to be conducive to a coherent and cohesive examination by a non-fiscal-orientated person in the advanced hours after earlier experiencing the trauma and crisis of a typical working environment. Or in the vernacular; which publisher is going to be bothered after a long day at the office?

The jargon-rich language of the report is unfortunate because it contains a lot of very valuable background information and technical know-how. What it needs, in fact, is a Curwen to analyse and extrapolate and present the information in a format easily understood by the ordinary, non-financial but industry-wise reader.

At one point the Coopers & Lybrand report reverts to flow charts and uses these to demonstrate the relative costs to the publisher of producing a general paperback and of getting it into the hands of the reader.¹⁹

Coopers & Lybrands statistical overview of general paperback publishing costs:

	%	%
SALES		100
Trade discount		<u>50</u>
Net receipts		50
Authors royalties	7.5	
Production costs	<u>18.0</u>	<u>25.5</u>
Marketing, distribution, overhead, profit		<u>24.5</u>

Publishers have neither the time nor the training to read and assimilate such a report especially if, as we have seen, Irish publishers are not profit-orientated. Coopers & Lybrand used a detailed questionnaire, which was sent to 58 firms covering 95% of the Irish publishing industry.²⁰ The information supplied by this questionnaire must have been tabulated to enable Coopers & Lybrand to arrive at average figures for the trade. I can see no reason why the tables relating to cost and profits could not have been included as an addendum to the report. Anonymity for individual publishers would have been achieved by using numbers or code names.

¹⁸Coopers, p.1.5.

¹⁹Coopers, Exhibit 4C.

²⁰Coopers, p.2.2.

This is a common practice in many industries where margins are tight and the only performance indicator a firm has is in being able to compare their results with those achieved by their competitors. I believe that the publication of these tables would have made a significant contribution to the publishing industry as a whole.

There would be problems in setting up such a system:

The production and other costs of an educational publisher are different from those who publish quality illustrated books and both are very different from those of a publisher of fiction.

Large publishers have by necessity costs in relation to staff and accommodation not experienced by the smaller shoestring firms.

There would have to be a consensus as to how costs should be allocated. For example, in a sole trader/partnership business, the profits are determined without taking the proprietor's drawings into account. If that business was a limited company, the profits declared would be net of proprietor's drawings.

Using the incomplete information available to me I have prepared such a table. See Appendix 1.

On comparing the figures for production costs, one sees that the Irish publishers' costs are nearly double those of the Americans and that of the very small publishers #4 and #8 even higher again. The probable reason in each case is the high setting-up costs for a print run, compared to the number of books actually printed. Print runs in the United States would naturally be much higher.

There is a large divergence in net profits between Publisher #5 and Publishers #6 & #7 in the Appendix:

Publishers #6 and #7 are the statistics produced by Coopers in Exhibit 4C (General Paperback with a retail selling price of £10) and page 4.23 (Average General Book Trade). If we assume the same overhead rate in #6 as in #7, then the General Paperback generates a margin of profit of only 0.5%.

Publisher #5 is the statistics produced by the CLE report of 1988, *Developing Publishing in Ireland*. Comparing these with #6 and #7 we see that trade discount has increased from 42.5 to upwards of 50%. More importantly, the margin of profit has apparently dropped in six years from 7.5 to 0.5% for the general paperback.

Both the variation in net profit between the CLÉ report of 1988 and the Coopers & Lybrand report, together with the variation in costs between the different styles of publishing, are clearly a cause for concern. I believe Coopers & Lybrand should have commented upon these variations and explained how they came about.

Since the Coopers & Lybrand report was issued it has become the practice of Easons, Ireland's main distributors, to demand a sixty percent trade discount. Not only have some of the Irish publishers agreed to this; one at least has also agreed to continue to take back returns.²¹

This does not make economic sense for three reasons:

Based on the statistics quoted above the publishers will be operating on a loss or, at best, on a very tight profit margin at best.

Easons further restrict profits by failing to supply backlist titles to bookshops.²² As we have seen in the case of Power and his self-published book, the unsold copies are pure profit waiting to be realised. That is where the sixty percent discount should be on offer, the increased discount being compensation to Easons for the additional costs incurred by them in processing individual orders.

To put it simply, Easons can negotiate from strength with individual publishers. Collectively, the Irish publishers form twenty-one percent of book sales in Ireland²³ which gives them the economic strength to use a body like CLÉ to negotiate a collective rate for the industry as a whole.

At the same time the publishers and CLE must be aware that any collective rates could apply only to Ireland. In Britain and elsewhere, sales of Irish books is minuscule when you consider that Waterstones sales target for 1998 is £50 million,²⁴ which is more than the Irish publishers total output.

This increase in trade discount is a recent industry-wide phenomenon²⁵. How else can the *Financial Mail on Sunday* offer books to its readers at up to 45% off list price?²⁶

At present it appears to be the case of the tail wagging the dog and, unless Irish corrective action is taken, publishing houses are going to go out of business or be forced to amalgamate to survive.

²¹ Publisher's Agent - Name withheld by request.

²² Bookshop Owner - Name withheld by request.

²³ *Books Ireland* December 1998, p.335.

²⁴ *The Daily Telegraph* 17th October, 1998; *Business News*, p.32.

²⁵ Jonathan Williams lecture, TCD, November, 1998.

²⁶ *Financial Mail on Sunday* 6th September, 1998; Reader Offer, p.13.