Building a 5 year Business Plan

How to Design a Successful Model for Your Publishing Company

Presented By Marion Gropen

There are a number of types of business plans. If you are trying to finance expansion of your company, you'll need everything that follows, and a several additional sections. [In the live session we never got to those extra sections, but a list is appended to the end of the pdf.]

The kind of business plan you'll probably do most frequently is meant for internal use only. This type is like AAA's famous trip planners, guiding you into the future.

It's hard to plan a trip, if you don't know where you're going. Most people think they know what they want their business to achieve, and they do – in a very vague way. But when you're mapping out a path, you can't say I want to go across town. You need a location for every stop you want to make, and the more specific the location, the better. It's the same here: you need a specific, detailed description of your goals. More, you need to know which ones you must achieve, which you want badly, and which would be nice, but only nice.

Once you've ironed that out, you can begin to work on the building the plan. A publishing business plan needs to cover all of the major elements of the process.

Your **editorial plan** should describe the books you will be publishing.

Your **marketing plan** will describe the readers for those books, and the way you'll reach them.

Your **financial plan** will take the input from the other two, and other items, and use them to describe the entire business in quantitative terms.

After you have the model of your business, you can use it

- To evaluate how well your business might withstand adversity,
- To judge the risks you are actually running,
- To identify signposts that tell you whether you're on the right track,
- To check whether or not you have enough resources to accomplish your goals, and
- To look for gaps in your future cash flow before they happen.

At each step of this process, you need to get the perspective of your senior staff, if you're not a one-person operation. It's important to be sure to get other perspectives on what can and cannot be done, and what the consequences of each action will be.

The Editorial Plan

We're going to start by discussing what you need in your editorial plan. An editorial plan should include:

- A description of the type of titles to be published
- An estimate of the advances required to buy them,
- An estimate of the preparation costs
- A rough schedule of the acquisitions to be expected
- A rough schedule of the preparation and publication of incoming titles
- An analysis of staffing levels required.

This is very detailed and heavy on the numbers compared to many editorial plans. There's a reason for that. You want your editors (even if you are the editor!) to be thinking about the way to get from where you are to your goals in a very organized and practical way. The plans that have a more literary tone may produce results that are just as good, but the extra specificity will reveal flaws and risks more clearly.

Let's look at the first page in your handouts. This is a summary of a sample editorial plan. At the top you see a table listing the hypothetical titles that are already under contract (like **Tuesdays with My Dog's Doctor**) and ones to be signed in the future, listed only by type (like "diet book"). The next columns show what type of book this is, the expected or actual advance, and the plant costs expected. (Plant costs are accountant-speak for things like editorial, design, art, proofreading, and so on. I'll avoid jargon wherever possible, but this is a good one to know.)

After you've described the books and the costs of getting them signed and to the printer, then you have the schedule section. I truncated this, to make everything fit on one page, but you need to do a month-by-month schedule for the first 2 years and a quarter-by quarter schedule thereafter. You should include at least the major mileposts such as signing the contract, getting a draft, accepting the final draft, cover start and finish, blurbing, and release dates.

Below the table, we find a list of how many people this publisher expects to need for which years. I wouldn't go into more detail than yearly. By the way, expect to need to replace staffers fairly frequently. Small presses frequently find that employees go on to other, larger firms after a very few years.

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Marketing Plan

The marketing of your books is the next major part of your long-term planning process. When you know the type or types of books on which you will focus, then you can turn to finding your readers, as Karla has already discussed. If you do the same kinds of books frequently, you will get better and better at reaching readers with your message.

The sample summary from a marketing plan in your handouts shows the minimum information you need. Each title from the editorial plan has a marketing budget, and an expected sales volume. Beside those numbers are columns for the audience(s) and tactics to reach them.

You need to be sure that the person doing the marketing has more detail to support this plan, but you don't necessarily need to have it yourself to move forward.

In the preparation of this plan, your marketing people (even if that's still you!) should consider who the other big players are in your area, and what makes their books successful. You then need to understand what makes your books most valuable to the reader, and which readers will want this the most. Next, you think about who those readers are and what else they do.

Knowing your readers leads to finding them in groups, and to understanding how you can most easily deliver your message. This leads to an assessment of the cost and likely benefit from these types of campaigns and to developing the structure and skills to support them.

Once you know what you need to accomplish your marketing strategies, you can produce the bottom section of this page – the personnel projections. You may also need to add lines for other major investment items, if there are any.

Financial Plan Described

Your financial plan comes next, and is the tool that tells you if the other plans are workable, or need to be re-vamped. It should include:

- A summary Income Statement (also called a P&L),
- A test of your plans under many different possible conditions,
- An assessment of the risks being run and the rewards that might be gained, and
- An evaluation of the adequacy of your current resources and possible sources to cover any shortfall.

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The Building Blocks of Your Financial Model

A Tip: Build a set of spreadsheets you can re-use. You will be repeating this exercise. Do this by making your data areas easy to insert lines without messing up formulas, and by bringing numbers from one set of sheets to another with automated formulas as much as possible.

Start with your books. You probably did sales and expense projections for each one at some time in the past. Pull out copies, and start by re-examining them. Do they need to be updated? Do they still make sense? The third and fourth pages of your hand out show an example of such a projection for a hypothetical book. These happen to be taken from a template package I sell, so it's a format I like, but you should find a layout you feel comfortable with. The important thing is to track all major revenue and expense categories projected for each title. It's also a good idea to include more than your most likely case. You need to have both best and worst cases at your fingertips, too.

Develop standard patterns for your sales. Next, you examine your sales history. Find one, or a few, patterns that your books' sales seem to follow. Do they start strong, then get returns, and end with a long tail? Do they start slowly, build steadily and then slow down? Are they steady for years, and then returns arrive when you announce the next edition? Or do you see other patterns entirely?

Draw a picture of these standard sales patterns, on a piece of graph paper. Page 5 in your handouts is an example of just such a set of graphs, for our hypothetical company.

Try to put a time scale on it. How many months after the release date does the peak usually hit? When do you usually see the worst of the returns? And so forth.

Now we need to turn this line into a set of numbers: a fraction of total sales for each month after the release date. Sounds hard, doesn't it? But it's not. Just add up the number of whole (or almost whole) squares under the line for each month. Write those below the month. Then add your subtotals to find the total for the whole graph. Last, divide your subtotals by the overall total. Record those fractions.

You can see a list of such fractions for each of the lines we just graphed, if you look at page 6. You're going to use these to project your sales for each month. That's exactly what you'll see on page 7. The top part is the fraction of gross sales you expect to see in each month or quarter of the 5 years. You'll have one line for each title. Fortunately, you can paste these numbers into each line, starting in the month of release! Otherwise, you'd get really good at data entry, and who wants that?

Apply the patterns to your titles' sales. The bottom section is where you multiply the total sales by the fraction in each month up top, to derive the expected gross sales in copies for each month or quarter.

Last, you'll multiply the number of copies in each case by the list price less discounts. This gives you gross sales in dollars for each title, in each time period. Sum down the columns, and across the rows, and you have gross sales by title and gross sales in total for each period.

To project returns, you follow exactly the same technique. Then you subtract returns from gross sales to get net.

Develop standard patterns for cash outflows for expenses. Now you need to project your spending to get those titles to market. Start with a standard pattern of spending. Look at page 8. You'll see that the major mileposts in preparing a title, that is, signing the contract, accepting the manuscript, and the months before and after publication, form the first column. The remaining columns are your direct expenses to launch a book.

Plant costs are the first column. Plant, in publishing jargon, includes things like design and editorial costs, where the total is the same whether you print one copy or a million. Your Cost of Goods Sold section should have three categories. Plant is one of them. Your spending on plant items will happen in the months before publication, although the pattern here is strictly hypothetical.

Royalty advances are the next column, and royalties earned are the second of the three components of your Cost of Goods Sold.

The **PPB** (Paper, Printing and Binding) is third component of your Cost of Goods Sold, and is shown in the next column. You can see that this publisher usually prints most of the expected demand in the first print run. The second print run comes soon after release, when a better projection of total sales and returns can be made.

The last column is the **Marketing** expense. Your marketing budget is usually set long before the release date, and this publisher has the habit of spending most of the budget on promotional materials, ARCs, and mailings in the time leading up to the release. The last quarter, however, is spent in pumping up the market during the first 90 days on sale.

Develop a standard pattern for the timing of expenses. The spending patterns aren't the only important pattern here, however. You all know that your printing bills are part of the inventory value of your books, and are an asset until the books are sold. Similarly, plant costs usually aren't expensed when you pay for them. Instead, you accumulate them as an asset, and amortize them over the life of the title. Royalty advances also aren't an expense, but an asset. The royalties earned are an expense, but the author doesn't get those funds until the advance has been fully earned out.

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In preparing the financial plan, you look at both the expense pattern and the cash flow pattern. In other words, you need to look at both the time when you recognize an expense or a sale in your accounting records, and the time when you spend or receive the cash. You need both in order to properly plan, and to foresee problems in time to avoid them.

Looking at page 9 in your handouts, you can see the expense pattern for the first title in our hypothetical list: Bestsellers for All. We start with the sales pattern, including the pub date. From this, you can project the royalties earned, based upon the terms in the contract. You also show the PPB expense as the cost of copies sold moves from inventory to COGS.

And, in the plant section, you can see the amortization of the total plant cost. I prefer to use a straight-line method, because it's simpler, it is essentially IRS-proof, it removes the temptation to include plant costs in your inventory value, and it doesn't require complicated reserves.

Each title in your financial plan would have a line in each of these sections. The release date would trigger similar calculations in each of those lines.

The schedule of cash flows would be developed in a way very much like they way in which we've done all the other worksheets. Each expense category would get a page. Each title would get a line on that page, and the next column would be the expected total for that title, again from the editorial or marketing plan. Thus far, it would look exactly like page 9.

At each milepost, as laid out in the editorial plan, the amount you expect to spend would be entered, following the patterns on page 8.

The spending for each title occurs earlier in its history than the movement from asset to expense, of course, but the sheets look so similar, that they aren't included in your handouts.

Projecting all other expenses comes next. Once you have the sales, cost of goods sold and marketing projected, the other expenses are simple. Distribution is generally a simple commission on sales, and can safely be computed on the summary sheet itself.

Your other expenses, called general and administrative expenses or overhead, can be projected based on your history, or a relatively simple gathering of your current commitments and your personnel projections. Most of you will be able to do these as a simple multiple of your current spending, and can also safely compute these as part of the summary sheet. So, let's move on to that summary:

Building the P&L projection summarizes the plan. Once you have projections for each title, you sum add up the expenses for each month, and pull those subtotals into a summary page. Page 10 shows just a year-by-year version. You might well want to show the first couple of years on a month-by-month basis for internal planning.

Let's start with the top of the page. **Sales** are going up steeply as the new titles come on line, and some sort of backlist is built up. Subsidiary rights revenue follows suit. Note that returns are expected to taper off, dropping from 33% to 28% of sales. This may reflect a change in the type of books being signed for release in those years.

Cost of Goods Sold, also called COGS, is a very high fraction of sales for this publisher. Fortunately, this plan has the COGS going down. This could either be wishful thinking with numbers, as I call it, or it could be a shift in the way the hypothetical company is publishing books.

Gross Margin is a relatively flexible term. Some companies call sales less COGS their gross margin. Other companies subtract the cost of distribution, usually those who have an exclusive distributor. This P&L does the latter, so our next section reflects the cost of distribution. This company, like most, pays both a commission and fees. Depending upon your contract, you may find that the commission is relatively smaller, and the fees larger, or vice versa, but it's common that the total works out to be similar across most distribution contracts.

You can see that the gross margin expected in the first two years shown is completely inadequate. This is a company that is in trouble, or a start-up. In either case, it needs to make some changes and as quickly as possible.

The M**arketing expenses** are dropping drastically as a fraction of sales even as sales increase. Again, it looks as if this company may be indulging in wishful thinking. The alternatives include a radical shift in the kind of marketing, or a company that has been making vigorous efforts to become a known entity, and foresees those efforts slacking off in the future.

The **General and Admin expenses** aren't reflecting the kinds of increases in personnel that the editorial and marketing budgets indicated. Why? Either the staffing requests have been slashed in the process (and that's common as we all know), or else someone slipped up. In either case, each item indicates a direction to take in the next part of this process: examining the strategy and planning for problems and for opportunities.

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Review Your Plan

The first thing your business plan can do for you is force you to put all your expectations and strategies together. When you look at the projections of sales, expenses and cash flows, you can see rather quickly where the holes might be. When you look at the marketing plans, you can see times when you may have too many projects at the same moment. And the same goes for the editorial plan.

You can look at each book, and at the profit expected in total, and tell if you need to find a different approach to your publishing, but also tell if you have been consistently indulging in optimism.

Look at what you are expecting of yourself and your staff. Is this reasonable? Is it possible? Have you allowed for the inevitable resignations and turnover?

Are you meeting your stated goals? If not, why not, and what can you do to change this?

Using Your Model to Improve Your Company

Now that you have a set of spreadsheets that are linked together, and where changes will flow from one to the next with relatively little effort, it's time to start working with them.

Start by looking for the consequences if things go wrong. What if some of your important books fail to perform? This happens to everyone in publishing sooner or later. Are any of your planned books critical to your survival as a company? Is there any way to change that? Are there any changes you can make that reduce the consequences if a book tanks?

What can you do if the markets you serve shift? What shifts might be in the future, and how have you allowed for them? What risks do you run if they do shift? How will your sales change, and how will you try to adjust? What resources will that require, and where will you get them?

Evaluate ways to reduce the risk. Consider choosing a slower growth path. If the failure of one book to live up to your expectations will mean that you have trouble meeting your commitments, consider slowing your growth to allow for a greater margin of safety.

If a particular market segment is more popular when the economy is good, consider adding a line of books that will be more popular when times are bad. If all of your books fit within one market segment, and it seems to be peaking, consider adding a very different line, but one that serves some of the same needs or some of the same readers, in a very different way.

Consider extending your product line beyond books. Perhaps your authors would make great speakers, and you are having success at booking them for lectures as part of the publicity effort. Consider establishing a speakers' bureau.

Establish ways to tell if you're on track. You don't have time to revamp your entire business plan every month. But you do need to know if you're meeting your goals. Find measures that will tell you whether or not you're falling behind. Candidates include:

- Number of titles in the pipeline
- Number of titles ready for publication in the next season
- Sales per title
- Gross margin and operating income targets for each month
- Entering the P&L and Cash Flow projections into your accounting program's budget files, and then comparing the actual and budget columns in your financial statements.

Once you have a number of possible measures, consider the cost of collecting and monitoring them. Is the information you get likely to be worth the effort? Can you make collecting the information easier, finding a way that it happens automatically as you do something else you have do to anyway?

Look at the working capital required to accomplish your plan. Working capital is basically the money tied up in your assets. The largest uses of working capital in publishing include:

- Accounts receivable (the money others owe you)
- Inventory
- Royalty Advances
- Plant Costs

Consider whether or not you can afford to support the growth in your plan. Accounts receivable are most frequently forgotten. You have to be able to produce books to feed your highest sales period, while waiting 4 months for payment. In some companies, that means that half of your annual sales can be tied up in accounts receivable, usually just as you need to invest in the following year's biggest books.

If you can't come up with that kind of cash from within the company, where else might you look? And if you can't find a loan or an investment to cover it, how can you slow the growth until the cash thrown off by your operations will support your plans?

Look for cash flow canyons between you and your goals. This is usually closely linked to your working capital requirements. Prepare sales and expenses worksheets, and a summary sheet like the ones in your handouts, but ones that look at the cash effects instead of the sales or expenses. These should be internal documents only, as they won't conform to Generally Accepted Accounting Principles. Look at the month-by-month version, and you'll see that some months have large sums flowing out. Check the total cash on hand at each point by adding the total flows expected to the cash you have on hand, and rolling that forward. If the total stays positive, or if the shortfall is small, you can probably squeak past the problem by simply adjusting a title publication date, or starting some part of preparing another title a little earlier or later.

If the gap is larger:

- Start shifting things around now.
- Look for credit lines before you need them.
- Look for ways to change your growth path so that the gap doesn't occur.

Look for times that might be difficult if one of your big books doesn't perform, and check to see how big the shortfall might be. Is it something that could be handled, or should you re-arrange your plans now to allow for the risk?

Conclusion

Building a business plan requires understanding every part of your operation, and how each of them will affect the others. Taking that understanding and translating it into numbers will help you pin down the possible problems years before you confront them, giving you time to avoid them gracefully, rather than forcing you into a crisis.

The internal business plan we have discussed here can be morphed into a document for investors or other outsiders relatively easily. The exact additions and condensations required will depend upon the audience for your plan and the reason you're sharing it. Like any other kind of writing, the most successful business plans are written with the reader and his or her needs firmly in mind.

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The sections you need to have in a Business Plan intended to help secure financing, etc. include:

- Executive Summary
- Historical Perspective on company, product need, industry
- Economic Analysis of Industry/Market
- Profile of Your Business
- Description of your Business Model
- Description of your Product
- Market Analysis
- Assessment of the Competitive Environment
- Marketing Plans (as above plus more detail on strategies)
- Description of Management, Operations, and Production (your Editorial Plan will be part of this.)
- Ownership Structure
- Strengths, Weaknesses, Risk and Opportunity
- Financial Analysis (as Above)
- Request for Financing (or whatever it is you're requesting!)

For further details on this process, or other operational or financial issues, you are more than welcome to contact me. My contact information is:

Email: Marion.Gropen@GropenAssoc.com
or
Toll-free phone (US): (888) 3GROPEN, that is (888) 347-6736.

Thank you for your interest and attention.