UNIT 12 PROFIT PLANNING AND BREAK-EVEN POINT

Structure
12.0 Aims
12.1 Introduction
12.2 What is (Publisher’s) Profit Planning
12.3 Break-Even Point
12.4 Calculation of Break-Even Point
12.5 Advantages of Break-Even Point
12.6 Limitations of Break-Even Point
12.7 Profit Planning in a Publishing House
12.8 Summing Up
12.9 Aids To Answers
12.10 Further Reading

12.0 AIMS

In this unit we shall be telling you in some detail about publisher’s profit and break-even point.

At the end of the unit you will be able to explain what is break-even point and why is it important for a publisher to know about it before taking a decision to publish a book.

12.1 INTRODUCTION

When a publisher is able to sell that number of books in which he can recover his total publishing cost and then some more, he starts to make a profit. In other words, the difference between the sales income and the total publishing cost is the possible profit of a publisher.

The point at which sales revenues are just equal to the costs incurred is the break-even point.

The definitions are the simplest part of the whole publishing exercise and is this small unit, we shall take you through the arithmetic of the business of publishing.

At the end of this unit we hope you will be able to do simple computing and be able to also explain the two activities.

12.2 WHAT IS (PUBLISHER’S) PROFIT PLANNING?

The difference between the sales income and total publishing cost is the possible profit of a publisher. This exercise of possible profit is necessary to arrive at a decision regarding the size of the edition as well as the selling price of the publication.

The possible profit in this case if all the copies are sold is shown in the following table:
Table 1: Possible Profit if all Copies are Sold

<table>
<thead>
<tr>
<th></th>
<th>1000 Copies Rs.</th>
<th>3000 Copies Rs.</th>
<th>5000 Copies Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales income</td>
<td>32490.00</td>
<td>82936.00</td>
<td>136032.00</td>
</tr>
<tr>
<td>Total publishing cost</td>
<td>27977.00</td>
<td>69628.00</td>
<td>111942.00</td>
</tr>
<tr>
<td>Possible profit</td>
<td>4513.00</td>
<td>13308.00</td>
<td>24090.00</td>
</tr>
<tr>
<td>Percentage of profit</td>
<td>16.13</td>
<td>19.11</td>
<td>21.52</td>
</tr>
</tbody>
</table>

If a publisher considers that the possible percentage of profit against investment is low and that it does not cover the usual interest on capital investment, the mark up may be increased by 4 or 5 times.

In this case explained in the tables above if the selling price is fixed at 4 times the unit cost of production the margin of profit will shoot up.

The percentage of profit in this case would become more than 41% in case of 1000 copy edition, 44% in case of 3000 copy edition and 47% in case of 5000 copy edition.

From such calculations a publisher is able to determine in advance the economic edition that would bring reasonable profit for the investment made. In this case the margin of profit for 1000 copy edition with 4 times mark up appears to be more economical because the difference in percentage between 1000 copy edition and 3000 copy edition is only marginal but there is huge difference between the total publishing cost between the two editions.

Table 2: Percentage of Possible Profit with 4 Times Mark Up

<table>
<thead>
<tr>
<th></th>
<th>1000 Copies Rs.</th>
<th>3000 Copies Rs.</th>
<th>5000 Copies Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit cost of production</td>
<td>18.05</td>
<td>14.81</td>
<td>14.17</td>
</tr>
<tr>
<td>Selling price 4 times</td>
<td>72.20</td>
<td>59.24</td>
<td>56.68</td>
</tr>
<tr>
<td>the unit cost of production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less trade discount</td>
<td>24.06</td>
<td>19.74</td>
<td>18.89</td>
</tr>
<tr>
<td>@ 33-1/3% of selling price</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales income per copy</td>
<td>48.14</td>
<td>39.50</td>
<td>37.79</td>
</tr>
<tr>
<td>Number of copies expected to be sold</td>
<td>900 copies</td>
<td>2800 copies</td>
<td>4800 copies</td>
</tr>
<tr>
<td>Net sales income for the edition</td>
<td>43326.00</td>
<td>110600.00</td>
<td>181392.00</td>
</tr>
<tr>
<td>Total publishing cost</td>
<td>18050.00</td>
<td>44450.00</td>
<td>70850.00</td>
</tr>
<tr>
<td>Author’s royalty @ 10% of production cost</td>
<td>1805.00</td>
<td>4445.00</td>
<td>7085.00</td>
</tr>
<tr>
<td>Administrative overheads @ 10% of net sales income</td>
<td>4332.00</td>
<td>11060.00</td>
<td>18139.00</td>
</tr>
<tr>
<td></td>
<td>30685.00</td>
<td>76542.00</td>
<td>12380.00</td>
</tr>
<tr>
<td>Possible profit if all copies are sold (Net sales income - Total publishing cost)</td>
<td>43326.00</td>
<td>110600.00</td>
<td>181392.00</td>
</tr>
<tr>
<td></td>
<td>-30685.00</td>
<td>-76542.00</td>
<td>-123280.00</td>
</tr>
<tr>
<td></td>
<td>12641.00</td>
<td>34058.00</td>
<td>58112.00</td>
</tr>
<tr>
<td>Profit percentage of total publishing cost</td>
<td>41%</td>
<td>44%</td>
<td>47%</td>
</tr>
<tr>
<td></td>
<td>(41.19)</td>
<td>(44.49)</td>
<td>(47.13)</td>
</tr>
</tbody>
</table>
The Pricing Formula affects the profit margin of a publisher, which may vary with each book. A different criterion is applied for fixing the price of each book produced. Break-even point is calculated before finalizing the selling price of a book.

Activity 1

What is the profit of a publisher?

(Check your answer with that at the end of the unit)

12.3 BREAK-EVEN POINT

Calculations of possible profit margin are made on the presumption that all the copies of an edition would be sold. In actual practice this happens only but rarely. A publisher, therefore, has to assure while fixing the selling price that even if the entire edition is not sold, how many copies he would have to sell so that his out of pocket expenses are recovered.

Break-even point may be defined as the ‘estimated point or stage at which net receipts equal net costs outlay on a book’. It is the intersection of costs and prices in a break-even analysis. A no profit no loss stage in publishing when a publisher has sold a specific number of copies to equal his investment. It is an analysis of expenses aimed at determining at what cost and price points, a product, a book or a company breaks even.

At this point or level the sales revenues are just equal to the costs incurred. Below this level the publishing house will make losses and above this level, it will be making profits.

Publishers, therefore; try to calculate the ‘Break-even point’ for each title in order to know the number of copies that must be sold before the book starts bringing in any profit. This is also known as ‘get out point’ as after reaching this point or stage the publisher has recovered the cost of production and therefore gets out of the danger of loosing money on the book.

This exercise is done before the selling price has been finalised. If at this stage it is felt that the Break-even point is on the higher side, an alternative Break-even Point is arrived at by making possible changes in the costs as well as the selling price of the product.

Publishers often calculate the margin per copy after deducting the expenses to meet the cost of production. The total cost of production is then divided by the margin per copy. The resultant figure would give a rough idea as to how many copies need to be sold in order to recover the cost of production or reach the Break-even point.

12.4 CALCULATION OF BREAK-EVEN POINT

Break-even point is a helpful tool in assessing the performance of a publishing house with regards to a particular book. For calculating Break-even point certain inputs are necessary. These are:
Break-even point is calculated as follows:

Step 1. Selling price (SP) less Trade Discount (TD) = Net sales income (NSI)

Step 2. Net sales income (NSI) less Author’s Royalty (AR) and overheads (OH) = Sales income (SI)

Step 3. Cost of production (CP) divided by sales Income (SI) = Break-even Point (BEP)

This can be represented as follows:

SP – TD = NSI

NSI – AR + OH = SI

CP ÷ SI = BEP

The Break-even Point for a 1000 copy edition of a book whose costs have been worked out in the tables above with selling price three times the unit cost of production would be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>54.15</td>
</tr>
<tr>
<td>Less Trade Discount @ 33-1/3% Net sales income</td>
<td>18.05</td>
</tr>
<tr>
<td>Net sales income</td>
<td>36.10</td>
</tr>
<tr>
<td>Less Author’s Royalty</td>
<td></td>
</tr>
<tr>
<td>@ 10% of selling price</td>
<td>-5.41</td>
</tr>
<tr>
<td>Less overheads per copy</td>
<td>-7.22</td>
</tr>
<tr>
<td>@ 20% of Net sales income</td>
<td></td>
</tr>
<tr>
<td>Sales income per copy</td>
<td>23.47</td>
</tr>
<tr>
<td>Cost of production</td>
<td>÷ 18050</td>
</tr>
<tr>
<td>(From (table 1))</td>
<td></td>
</tr>
</tbody>
</table>

Break-even Point = 769 copies

It is to be noticed that the Break-even at 769 copies is on the higher side. This is so because selling price is estimated at three times the unit cost of production in a 1000 copy edition.

Break-even point for the same book with selling price estimated at four times the unit cost of production would bring down the Break-even point considerably.
### Profit Planning and Break-Even Point

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>72.20</td>
</tr>
<tr>
<td>Trade Discount @ 33-1/3%</td>
<td>= 24.06</td>
</tr>
<tr>
<td>Net sale income</td>
<td>= 48.14</td>
</tr>
<tr>
<td>Net sales income</td>
<td></td>
</tr>
<tr>
<td>Less Author’s Royalty</td>
<td>- 7.22</td>
</tr>
<tr>
<td>@ 10% of selling price</td>
<td>= 40.92</td>
</tr>
<tr>
<td>Less overheads @ 20%</td>
<td>- 9.62</td>
</tr>
<tr>
<td>of Net Sales Income</td>
<td></td>
</tr>
<tr>
<td>Margin per copy/Sales income</td>
<td>= 31.30</td>
</tr>
<tr>
<td>Cost of production</td>
<td></td>
</tr>
<tr>
<td>(From Table 1)</td>
<td>÷ 18050 ÷ 31.30 = 576</td>
</tr>
<tr>
<td>Sales Income per copy</td>
<td></td>
</tr>
</tbody>
</table>

**Break-even point = 576 copies**

This is nearly **200** copies less than the first proposition.

In terms of percentage, the Break-even Point arrives at **57.6** percent of the **1000** copy edition as against **76.9** percent if the selling price is fixed at four times the unit cost of production instead of three times.

#### Activity 2

Define the term break-even point.

(Write your answer here)

(Check your answer with that at the end of the unit)

### 12.5 ADVANTAGES OF BREAK-EVEN POINT

The advantages of calculation of Break-even point are as follows:

- It is possible to know the probable profitability of a product besides the level of no profit no loss. Publishers can boost its promotional and marketing activities to reach the Break-even level as quickly as possible.

- The exercise provides an opportunity to give a second thought and reorganise variable costs at different levels of book production.

- It gives an idea of fixed costs in book production. Publishers can take remedial measures to control such costs.

- Break-even analysis is helpful in forecasting, long term planning and growth of the publishing house.
12.6 LIMITATIONS OF BREAK-EVEN POINT

Break-even analysis has no doubt become an important tool to assess and forecast the financial commitment in a publishing project. It has certain limitations also.

- Fixed costs do not always remain constant. For example, overheads, which are more or less considered fixed costs, do vary from time to time.
- Marginal and unfixed costs do not vary proportionately.
- Since each book will have its own Break-even analysis, Break-even analysis for the publishing house as a whole becomes undependable.
- The costs incurred on growth and expansion of the business sometimes, does not get reflected in the Break-even analysis for each individual book brought out by a publishing house.

Activity 3

Describe the method of calculating break-even point.

(Click your answer with that at the end of the unit)

12.7 PROFIT PLANNING IN A PUBLISHING HOUSE

The primary success factor in any business is the capability of the management to plan and control its activities to accomplish the specific objectives of the enterprise. Publishing management, therefore, would include, besides publishing books, planning of activities and their control to achieve success as a financial venture.

It is an accepted fact that profit level in publishing is much lower. It is generally said that if you can make money in publishing, you can make much more money in any other business.

It is a difficult occupation. Profit margins vary with pricing formula adopted for each title and category of books. Planning future projects, raising capital has always been one of major problems for the publishing fraternity.

Do not forget that publishing has rewards to offer far greater than money. For real publishing extends beyond monetary or mercantile interests. For those interested only in cash dividends, the cultural and intangible profits of great publishing are meaningless.

12.8 SUMMING UP

In this unit we have tried to explain to you that a publisher's income depends upon the difference in publishing cost and the amount received by selling the books.

Further we have told you that it is important for a publisher to know the BREAK-EVEN point before a price is fixed so that one can have an idea as to how many copies one has to sell before the profit starts.
We showed you

- What is Publisher’s Profit
- What is Break-Even point and its importance
- How are these calculated.

We also explained how these calculations are necessary to understand the economics of publishing and the role the Break-Even exercise plays in it.

Finally, we have given you the formula to calculate Break-Even point, which will guide you to calculate the Break-Even point of any given book.

12.9 AIDS TO ANSWERS

Activity 1

The difference between the sales income and total publishing cost is the possible profit of a publisher.

Activity 2

Break-even point may be defined as the ‘estimated point or stage at which net receipts equal net costs outlay on a book’.

Activity 3

Break-even point is calculated as follows:

Step 1. Selling price (SP) less Trade Discount (TD) = Net sales income (NSI)

Step 2. Net sales income (NSI) less Author’s Royalty (AR) and overheads (OH) = Sales income (SI)

Step 3. Cost of production (CP) divided by sales Income (SI) = BREAK-EVEN Point (BEP)

This can be represented as follows:

\[
SP - TD = NSI \\
NSI - AR + OH = SI \\
CP \div SI = BEP
\]

12.10 SELECT READING LIST


Book Fairs Around The World

January
New Delhi World Book Fair, India
Cairo International Book Fair, Egypt

February
Taipei International Book Exhibition, Taiwan
Havana International Book Fair, Cuba
Baltic Book Fair, Vilnius, Lithuania
Jerusalem International Book Fair, Isreal
Muscat International Book Fair, Oman

March
Lahore International Book Fair, Pakistan
Bangkok International Book Fair, Thailand
Leipzig Book Fair, Germany
Salon du Livre, Paris, France
London Book Fair, England
Bologna Children’s Book Fair, Italy
Abu Dhabi International Book Fair, UAE

April
Bogota Feria Intercional del Libro, Colombia, South America
Geneva Book Fair, Switzerland
Buenos Aires Book Fair, Argentina
Budapest International Book Festival, Hungary
Arab Book Fair, Morocco

May
Warsaw International Book Fair, Poland
Turin International Book Fair, Italy
Tehran International Book Fair, Iran
Nigeria International Book Fair, Nigeria
Skopje International Book Fair, Macedonia
BookExpo America, New York, USA
Seoul International Book Fair, Korea
Prague International Book Fair, Czech Republic
Thessaloniki Book Fair, Greece

June
Cape Town Book Fair, South Africa

July
Tokyo International Book Fair, Japan
Hong Kong Book Fair, TDC, Hong Kong

August
Manila International Book Fair, Philippines
Edinburgh International Book Festival, Ireland
Jordan Book Fair, Amman, Jordan
Delhi Book Fair, India

September
Moscow International Book Fair, Russia
Colombo International Book Fair, Sri Lanka
Goteborg International Book Fair, Sweden
Beijing International Book Fair, China
Rio International Book Fair, Brazil
Jeddah International Book Fair, Saudi Arabia

October
Frankfurt Book Fair, Germany
Liber Book Fair, Spain
Helsinki Book Fair, Finland

November
Guadalajara International Book Fair, Mexico
Kiev International Book Fair, Ukraine, CIS Country
Sharjah World Book Fair, UAE
Salon du Livre, Montreal, Canada
Santiago International Book Fair, Chile
Istanbul Book Fair, Turkey
Oslo Book Fair, Norway

December
Ghana International Book Fair, Accra, Ghana
Karachi International Book Fair, Pakistan
Doha International Book Fair, Qatar

Courtesy: Mr S K Ghai, Chairman cum Managing Director, Sterling Publishers Pvt Ltd and Member, Exec Committee, FIP