

STRONG FINANCES, STRONG MINISTRY

Peter Cunliffe, veteran publisher and international publishing consultant, draws on over 40 years experience in Brazil, the United States, and France, to discuss how publishing finances matter to God.

Publishers do not write books, they do not print books, nor do they sell books to the readers. What do they do? They link the work of other persons: authors who write books, printers who print them and booksellers who sell the books to the readers.

Most publishing houses around the world are limited principally by one factor: they lack sufficient working capital. The editorial departments have manuscripts ready to publish, the production departments are ready to get the books printed, and the sales departments are ready to sell them, but money is needed first.

Business statistics show that, in general, 34 percent of new businesses fail in the first year, 57 percent of new businesses fail in the first five years, and 81 percent of new businesses fail in the first decade. However, 93 percent of these failures are attributed to poor management—particularly in the area of finances.

Causes of failure

Almost all of the most commonly cited causes of small business failure have to do with financial management:

Lack of financial planning. This might involve starting a business with insufficient capital.

Absence of business records. A company has no way to measure its progress against the goals it has established for completion by the

end of the year without financial documents.

No understanding or use of business records. A business may have the necessary financial documents but its managers may not know how to use them. Many managers do not even know what a cash flow projection is.

Poor cash flow management. A company cannot function smoothly if the director has not estimated the expenses and seen to it there is money available to cover them.

Poor inventory management. If a firm has too little stock in the warehouse, it can lose sales. But if it has too much stock, it is tying up its working capital in inventory.

Poor cost setting or pricing. If prices are set too low, there may not be enough income to cover expenses. But if prices are set too high, sales may be down because prices are not competitive.

Poor market research. A company may not have the right product, or maybe the market is not big enough to create enough demand for its product.

Over-borrowing. Though many businesses count on working with money borrowed from the bank, it is possible to borrow too much and pay excessive amounts of interest each year.

Recall how many businesses fail within their first ten years. If their management staff had put into practice sound principles of finan-

cial administration, 93 percent of those businesses would not have failed. Think of it: most businesses can be saved. Good financial management is critical to success.

Profit-seeking

The director of every Christian publishing house must answer a key question: Is it biblical—is it spiritual—for a Christian publishing house to seek a profit? The answer to this fundamental question will affect many basic policies.

For instance, what kind of sales promotion will the publishing firm use? What prices will it charge for its books? How high will the employees' salaries be? What margin of profit, if any, will it seek? What personnel practices will it use to address poor performance or bad attitudes on the part of employees?

Business or ministry?

Is a publishing house a business or a ministry? This question causes serious problems in some Christian publishing houses. Some say it is unspiritual for a Christian publishing house to seek monetary gain. They contend Christian publishing houses should offer spiritual help without earning a profit from the sales of their books. Publishing for profit is seen as materialistic and worldly.

Others insist that as long as the profit margins are reasonable and fair, earning a profit is necessary for

the business to survive, and there is nothing unspiritual or immoral about it. Who is right? Is it scriptural to make profits?

A publishing house is a business and a ministry at the same time. The ministry of book publishing takes place in a business environment. Publishers pay large amounts of money to printers to print books and receive money from selling books to bookstores.

Christian publishing houses exist to fulfill a mission, but require finances to operate successfully. Publishers need to earn enough income to pay the bills and develop new products. Profits are not only important; they are necessary to survive.

Some people will argue, "The Bible says that money is the root of all evil!" This is a misquotation of the Word of God. What the Bible does say is that "The love of money is a root of all kinds of evil" (1 Tim. 6:10, NIV). It is humanity's greedy attitude toward money that is behind all kinds of evil (stealing, killing, lying, cheating, etc.).

The Bible does not teach money itself is evil, but rather that a wrong attitude toward money is evil. We should neither neglect money nor become enslaved to it. To master finances it is important to keep them in proper perspective. What *does* the Bible say on the use of finances?

Sufficient working capital

"Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it? For if he lays the foundation and is not able to finish it, everyone who sees it will ridicule him, saying, 'This fellow began to build and was not able to finish.'" (Luke 14:28-30, NIV)

Paraphrase: "*Suppose you want to start a publishing house. You had better make a five-year financial budget first to make sure you have enough startup capital to survive the first five years and become self-supporting.*"

There are physical laws in the world, like the law of gravity. If an

individual steps off the roof of a house, the law of gravity will cause that person to fall to the ground, and he or she may break a leg or an arm. That individual may not believe in the law of gravity but will still suffer the consequences.

Likewise, there are principles in the business world. One of these is that publishers need enough initial capital to finance the beginning activities of a firm and afterwards, they need enough working capital to keep the business strong and functioning.

I visited a new publishing house in South America not too long ago. It had only enough money to publish the first book on its list. I advised the staff to wait before starting and to concentrate on raising more working funds to cover their deficit until they could become self-supporting. But the staff was so enthusiastic and eager to start, they began anyway. After the first book was published they found they were broke. Through the timely intervention of an outside agency, they were barely able to have their second book published. That Christian publishing house is now in a very precarious situation because it is almost completely dependent on gifts from others, without any assurance it will receive that help.

Plan ahead

"A prudent man foresees the difficulties ahead and prepares to meet them. A simpleton goes blindly on, and suffers the consequences." (Proverbs 22:3, Living Bible)

Paraphrase: "*A wise financial manager prepares a cash flow projection in advance. A foolish financial manager asks, 'What is a cash flow projection? I've never heard of one.'*"

During the years I managed a publishing house in France, one of the principal Christian publishing houses went bankrupt. It planned to publish a new version of the Bible and had an editorial staff working on the project for two or three years. Meanwhile, the firm contracted to publish a five-volume *Pictorial Bible Dictionary*, with each

volume consisting of 800 to 1,000 pages. The translation of this work from English into French was a monumental task. The investment in the salaries of the translators and editors was considerable. Meanwhile, the publishing house also needed funds to finance its normal production of new books.

The weight of all these expenses was too much, and even though this was one of the largest Christian publishing houses in France, it went out of business! A cash flow chart would have revealed, well in advance, that it could not afford to take on two large projects at the same time and survive financially.

Stay informed

"Any enterprise is built by wise planning, becomes strong through common sense, and profits wonderfully by keeping abreast of the facts." (Proverbs 24:3,4, Living Bible)

Paraphrase: "*Your publishing house can grow strong, if you ask God to guide you from the start, and keep on asking Him to give you good judgment and common sense from day to day as you analyze your financial statements.*"

"Built by wise planning." Should people begin to build a house without the necessary plans? How will they know how to go about the construction if they do not have the plans to show them how to proceed? It is important not only to have plans, but wise plans. This means seeking training on how to organize a publishing house.

"Becomes strong through common sense." Common sense is developed, in part, through the experience and learning one has gained from working with others.

"Becomes strong by keeping abreast of the facts." A publisher needs to be financially aware to know whether the publishing house is weak or strong and why.

I visited a publishing house in West Africa some years ago which was on the brink of going out of business. I discovered that they only used a balance sheet and did not use any of the other principal

financial documents. Thus, it was difficult for them to determine the cause of their financial problems. They could not analyze what was happening day to day.

After creating the necessary financial statements they were able to discern that they were quite overstaffed in relation to their sales and that their printing operation was very unprofitable. It was a drain on the firms' finances. Corrective action was taken, and after several years of rebuilding, the publishing house was able to survive and become much stronger.

Size is no guarantee

"Riches can disappear fast. And the king's crown doesn't stay in the family forever—so watch your business interests closely. Know the state of your flocks and your herds." (Proverbs 27:23,24, Living Bible)

Paraphrase: "*Just because you are a big publisher doesn't mean you can't go broke. Pay very close attention to your financial statements.*"

During the years I was in Brazil, a very large denomination had many Christian bookstores as well as a very large publishing house. It eventually accrued a debt of over 10 million dollars. It had to sell its bookstores and close the publishing house. It was very sad to see that large and well respected publishing firm end. If it had the necessary financial information, and was analyzing it carefully to use wise strategy, it should have been able to avoid such an end. Its size was no guarantee that it would not fail.

Stewardship

In the Gospel of Matthew, in the parable of the talents (25:14-30), the servant who received five talents and earned five more was given approval by his master. "Well done, thou good and faithful servant," said the master.

In contrast, the servant who received one talent and did not invest it was called wicked and lazy. His talent was

given to the man who had 10 talents. Jesus explained:

"Everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him." (Matt. 25:29, NIV)

Paraphrase: "*If you do not carefully invest your resources, you will lose the goodwill of your shareholders and of your customers. They will invest their money elsewhere.*"

The Lord does not like sloppy financial management. He expects his servants to be the best financial managers possible and has provided guidance for them in His Word.

Role of financial administrators

A good financial manager is like a sentry guarding the publishing house from failure. Though each department has its own responsibilities in advancing the publisher's mission, the financial department, through constant monitoring of data, is usually the first to discover problems faced by a publishing firm. For instance:

Editorial: Are costs increasing too rapidly in relation to gross income?

Production: Are production costs

rising too fast in relation to gross income?

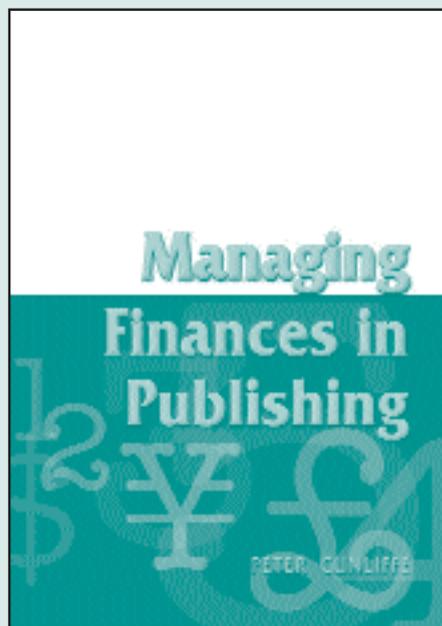
Sales: Is sales income down in contrast to the income received last month or last year? Are sales promotion expenses rising too rapidly?

Administration: Are salaries, as a percentage of sales, too high? Are total administration expenses too high?

The financial manager has a responsibility to alert the staff to what is happening.

Over and over again during the past 42 years that I have been involved in publishing in Brazil, France and in the USA, I have seen that the lack of funds frequently seems to be the limiting factor in allowing publishing houses around the world to publish more books. Good financial managers can make all the difference.❖

The preceding article was adapted from the first chapter of *Managing Finances in Publishing*, by



Peter Cunliffe. This new book from Cook Communications Ministries International is a concise guide for anyone with a need for financial expertise. *Managing Finances in Publishing* uses practical language to discuss the many challenges of administering income and expenses of publishing houses. The book provides information on acquisitions costs, budgets, cash flow, income statements, marketing, inventory management, compensation, inflation, fiscal accountability, debt management, and many other topics. *Managing Finances in Publishing* is available for US\$24.95 (order # 70009). To obtain this resource, contact Publisher Development Resources, Cook Communications Ministries International, 4050 Lee Vance View, Colorado Springs, Colorado 80918, United States of America. You can also call 1-719-536-0100 x 3978, fax 1-719-536-3266, or e-mail ccmintl@ccmi.org.