Bookselling by the NUMBERS

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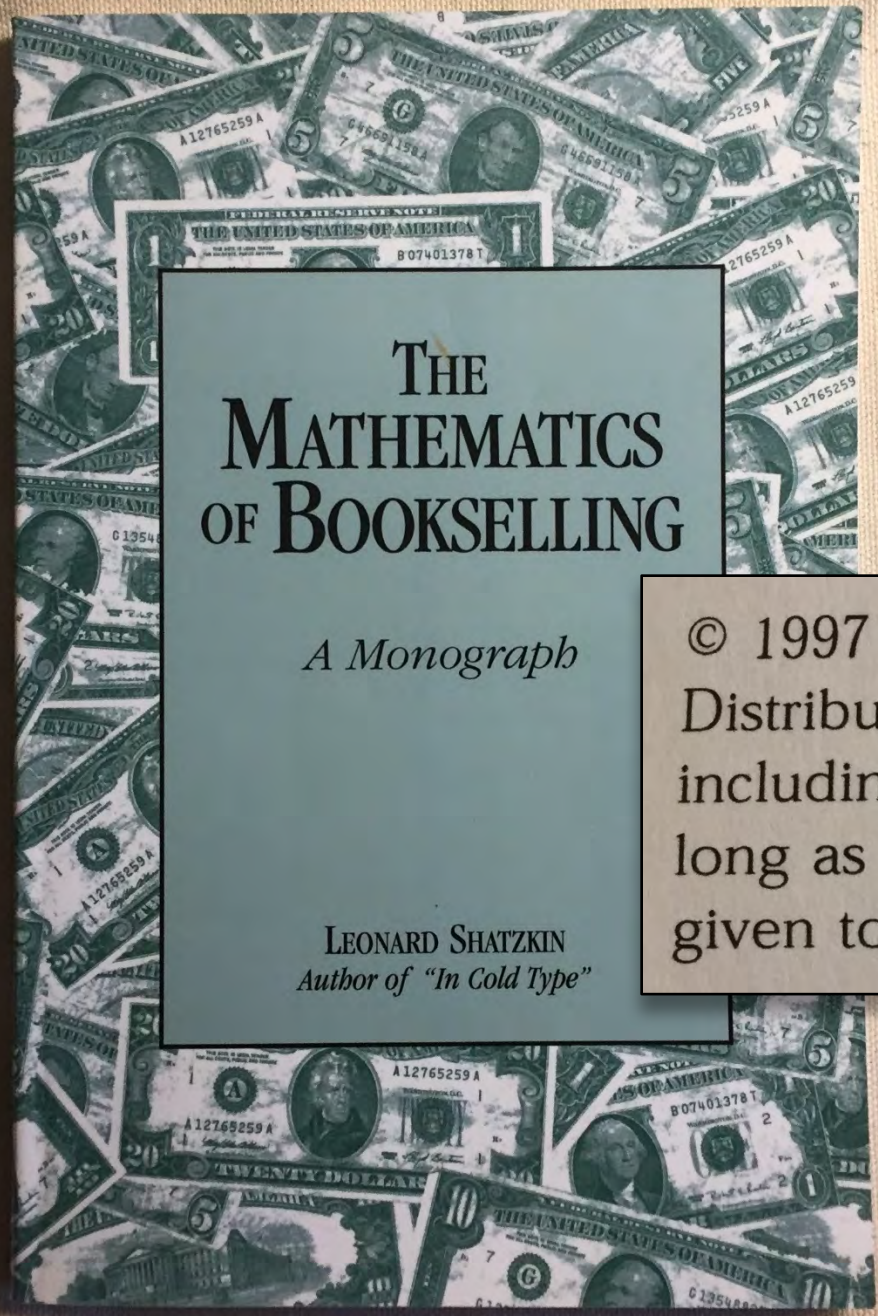


Pick your metrics!

Profit, Cashflow, Turns, and ROI

Profit vs. Cashflow

- Profit is price (what you charge) minus cost (what you paid)
  If you pay $12 for a book and sell it for $20, your profit is $8
- Cashflow is the rate at which money flows in and out of your store.
- Always include shipping in profit & cashflow calculations, including “non-obvious” shipping

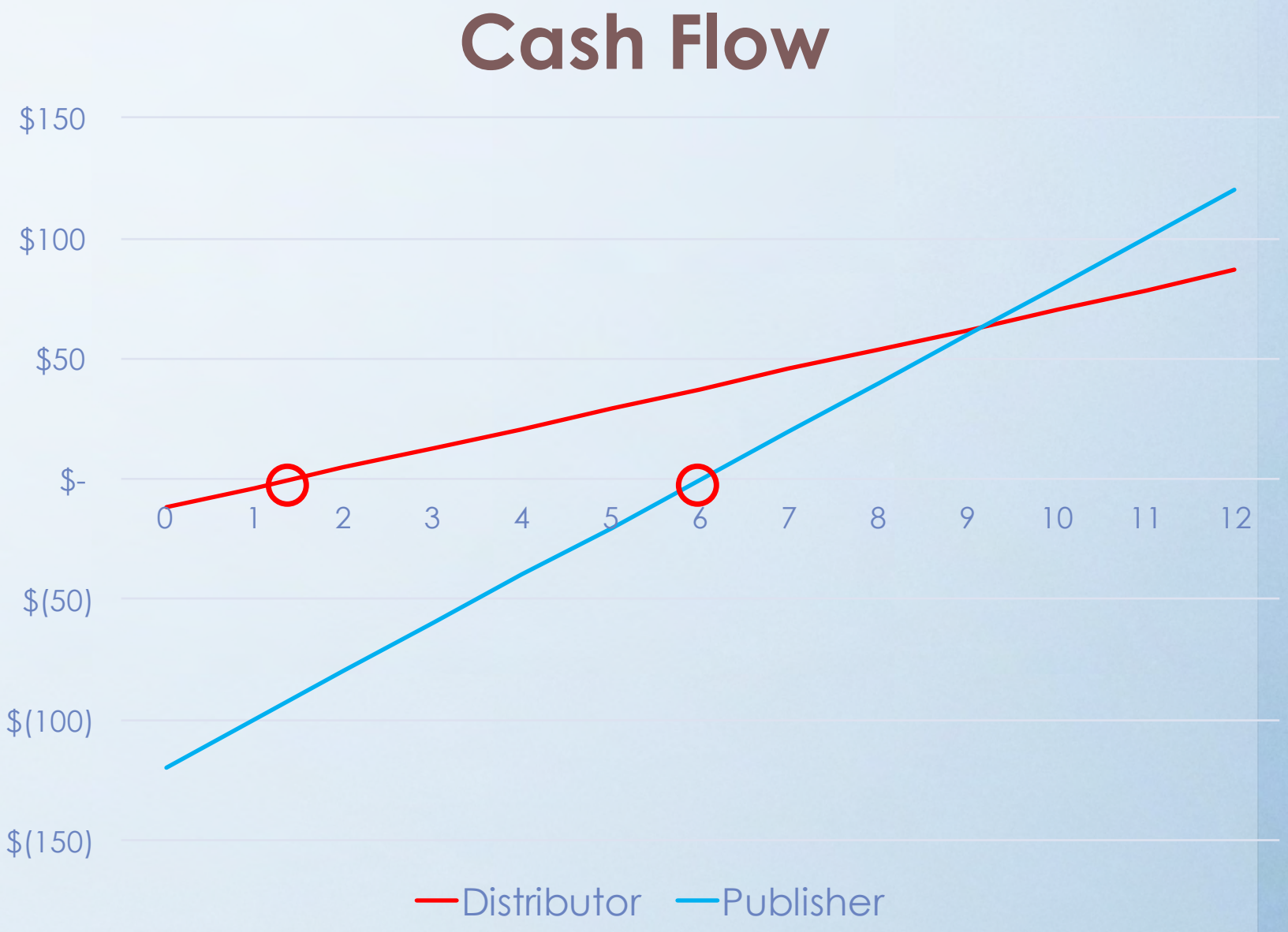
An Example

- You sell one copy/month of a certain title
- Your distributor gives you a 41% discount
- The publisher offers 50% if you buy 12 copies

PROFIT

- Distributor: $8.20 profit each x 12 = $98.40
- Publisher: $10.00 profit each x 12 = $120.00

Month	Distributor	Publisher
0	(11.80)	(120.00)
1	(3.60)	(100.00)
2	4.60	(80.00)
3	12.80	(60.00)
4	21.00	(40.00)
5	29.20	(20.00)
6	37.40	-
7	45.60	20.00
8	53.80	40.00
9	62.00	60.00
10	70.20	80.00
11	78.40	100.00
12	86.60	120.00



Return on Investment

- ROI = Profit / Initial Investment
- For Publisher in this example:
  - Profit = $120 and Initial Investment = $120
  - ROI = 120/120 = 100%
- For Distributor:
  - Profit = $98.40 and Initial Investment = $15.40
  - ROI = 98.4/15.4 = 639%

Inventory Turns

- Turns = Total Sales / Average Inventory
- Either use retail price for both or cost for both (for individual titles, just count books)

INVENTORY TURNS MEASURE THE PRODUCTIVITY OF YOUR MONEY

- Higher turns mean more sales for less cash invested

Turns With Our Example

- Retail price of one copy = $20
- Total sales = $240

- Distributor: Average inventory 1 copy ($20). $240/$20 = 12 turns
- Publisher: Average inventory 6 copies ($120). $240/$120 = 2 turns

Are Higher Turns Always Better?

- Higher turns mean your money is more productive
- If sales stay the same, fewer copies on hand means higher turns
- Therefore, you should always have exactly one copy of each book in stock, right?

No!

How Long is a Copy Out of Stock?

- Ordering every weekday
- Books take 2 days to arrive
- No weekend UPS delivery
- Average days out of stock = 4

Sold	Ordered	Received	Days Out
Mon	Tue	Thu	3
Tue	Wed	Fri	3
Wed	Thu	Mon	5
Thu	Fri	Tue	5
Fri	Mon	Wed	5
Sat	Mon	Wed	4
Sun	Mon	Wed	3

Only Stocking One Copy

Turns	Frequency	Out of Stock	%
2	Every 6 months	4 days out of 182	2.2%
12	Every month	4 days out of 30	13.3%
26	Every 2 weeks	4 days out of 14	28.6%
52	Every week	4 days out of 7	57.1%

- A popular book out of stock = lost sales!
- Impulse buys make it even worse

Ordering Monday/Thursday Only

- Ordering twice per week
- Books take 2 days to arrive
- No weekend UPS delivery
- Average days out of stock = 5.1

Sold	Ordered	Received	Days Out
Mon	Thu	Mon	7
Tue	Thu	Mon	6
Wed	Thu	Mon	5
Thu	Mon	Wed	6
Fri	Mon	Wed	5
Sat	Mon	Wed	4
Sun	Mon	Wed	3

Target Inventory Turns

- ABACUS gives you a good idea of what other stores do.
- 3 or 4 turns storewide is a good target
- Some sections should be higher (e.g.,15-20 for bestsellers)
- “Wallpaper” sections may be lower

Use Your Computer System!

- It's easy to see (or calculate) inventory turns store-wide, section-by-section, or for individual titles
- Remember that "turns" is not the same as "copies sold in a year" unless your average stock level is one!
- Make notes for books that you discontinue and bring back later (seasonal, event-based…). Turns are higher than they appear!

Frontlist

- Calculations so far assume backlist (steady sales)
- Frontlist titles come on strong and slow down
- Example of recent new release:
  50 copies sold of hardback in 1st year

  20 in 1st month
  10 in 2nd month
  2/month (average) rest of year

Author Events

- It's always guesswork
- On a fairly strong author:
  - Table up front 2 weeks early with big stack
  - Sales at the signing itself
  - Keep up to ½ of quantity sold at event (signed)
  - Return the rest

One of the less useful metrics

SALES per SQUARE FOOT

A Metric Everyone Uses

- Almost 2/3 of indie stores are between $100 and $400 per square foot (ABACUS 2014)
- On average, stores with over $200/sq ft sales reported positive net income
- It's a measure of how efficiently you are using your store's floor space

A Different Point of View

- Sales/sq foot isn't a direct reflection of store health
- Sales/Rent is!
- A 1,000 square foot airport bookstore may pay the same rent as a 4,000 square foot rural bookstore; if their sales are the same, they're equally healthy
- Sales/Rent is a good year-to-year metric

Your hidden money drain

CARRYING COST

A Lesson from the Warehouse

- Every book in your store is taking up selling space
- Selling space costs money (rent)
- Divide monthly rent by total volumes in stock to get carrying cost per month
- Example: $3K rent with 6,000 books
  Carrying cost = 50¢ per book per month
- $15 book @ 40% discount = profit gone in 1 year

When you can live with

LOWER MARGINS

Special Orders

- Carrying cost isn't just zero; it's carrying *profit*
  - You can get paid over 30 days before you buy special-order books; it's like a loan from the customer
  - They take up no selling space
- Discounts encourage more special orders
- Even 20%/NR CreateSpace special orders are better ROI, cashflow, and profit than 40% books that sit on a shelf for six months

Re-pricing Low Margin Books

- How do you price an $18 book that you're buying at a 20% discount to make your standard profit?
- COST = $18.00 * 0.8 = $14.40
- PRICE = $14.40 / 0.6 = $24.00
- Beware of POS systems auto-adjusting retail prices!
- You can make employees a simple chart at different discount levels

An Easy Re-Pricing Chart

- Find your discount in the left column
- Multiply the book's list price by the number in the right column
- The new price is equivalent to buying at 40% discount

Discount	Multiplier
NET	1.67
5%	1.58
10%	1.50
15%	1.42
20%	1.33
25%	1.25
30%	1.17
35%	1.08

Doing the math on

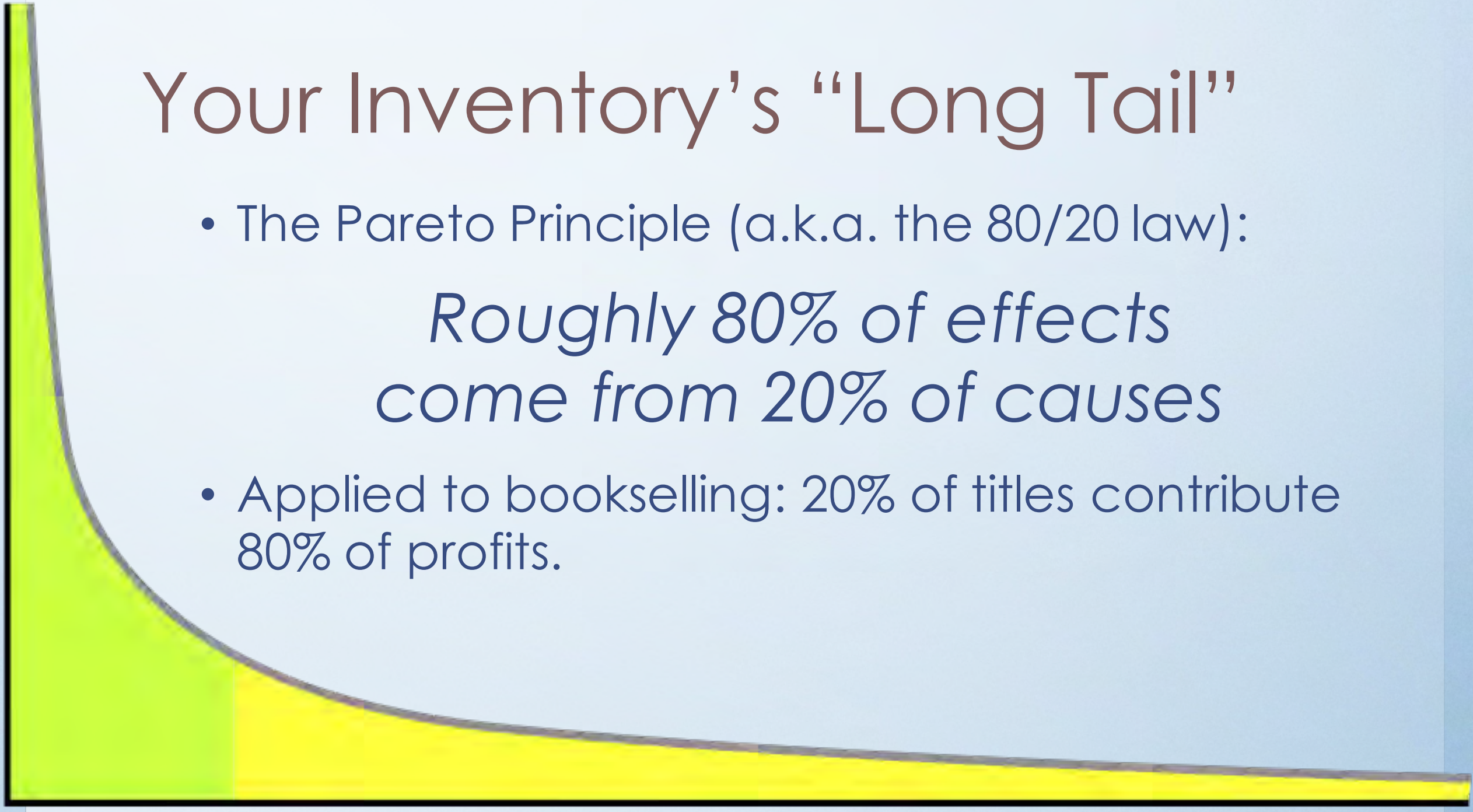
WALLPAPER

Your Inventory's "Long Tail"

- The Pareto Principle (a.k.a. the 80/20 law):

Roughly 80% of effects come from 20% of causes

- Applied to bookselling: 20% of titles contribute 80% of profits.



Stock Management & Long Tails

- A big part of inventory management and evolution is lopping off the end of the tail and replacing it with new titles
- Phases of inventory trimming
  - Set POS to "do not reorder"
  - Move books to discount tables
  - Return what's returnable
  - Use the rest in promos, donations, "blind dates"…

Wallpaper Books

- Wallpaper is not the same as what's on the long tail of your inventory:

Long tail is incidental
Wallpaper is intentional

- A large percentage of Barnes & Noble stock
- Helps your store to look "serious" in weak sections

Wallpaper and Carrying Costs

- Carrying costs indicate that wallpaper books are losing you money every month
- This isn't true *if*
  - You don't have other stock to fill those shelves
  - You consider wallpaper a marketing expense
  - Those books generate sales of other books (e.g., mid-series, attention-getters, promo books)

Using Books as Décor

- A themed collection of (returnable) books can be a cheaper window display than decorations
- Don't even consider these books in inventory or turns calculations – seasonals can be stored with your holiday decorations!
- It's a good way to experiment with funky stuff you wouldn't otherwise carry

Profit and cashflow with

REMAINDERS

Remainder Danger

- Will a customer buy an $8 remainder instead of a $16 regular title (lost sales)?
- Will unreturnable remainders that don't sell take up space that could be used for other titles (carrying costs)?
- Will dinged-up, remainder-marked titles lower your store's classy image?

Lost Sales

- You set the price; you control the margin
- $16 title at 40% discount
  - $9.60 investment, $6.40 profit: 67% ROI
- $8 remainder bought for $3.20
  - $3.20 investment, $4.80 profit: 150% ROI
  - At full price, $3.20 investment, $12.80 profit: 400% ROI
- If customers perceive that they're getting a deal, they may well buy more than one remainder.

Carrying Costs

- This is a real danger: books are remaindered for a reason! However…
- Lower investment means you have more room to discount in the bargain bin
- High ROI titles (full price sales) offset losses from remainders that just don't sell
- You can choose remainders that fit the character of your store (wallpaper)

The Store Image

- Some remainders will come in shelf-worn and marked. Take them straight to the bargain bin
- A full bargain bin attracts more attention, thus helping to sell off "long tail" books and pre-returns
- Intershelve the remainders that look clean & new. Use their higher profit/ROI to offset bad copies
- Don't reorder from companies that send you crap

Doing the math on

RETURNS

Returns Cost You Money

- If you buy at 40% and sell at 40%, your profit is zero, ROI is zero, and you've tied up cash. If you return…
- Wholesalers offer less credit. Buying at 40% discount and returning for 50% credit means:
  - Buy a $20 book at a 40% discount: $12 investment
  - Return for 50% credit: $2 loss = -16% ROI
- Shipping books is expensive
- Cash is tied up as credit against future order

Tips on Returns

- If you buy large quantities of a title (e.g., for an event) anticipating potential returns, buy from the publisher
- Mass markets and other strippables are cheap to ship. Don't waste time & effort in the sale bin
- Use heavy return candidates as sales books, bonuses, give-aways, "blind dates," etc.

Blind Date With a Book

- I pulled 300 titles that were either non-returnable or awkward/expensive to return
- Wrapped and packed in 2s & 3s with a theme
- All sold in 6 weeks, including books that had been on my shelves (and discount tables) for years
- Net loss on all 300, but it freed up $800 cash to buy fresh new inventory
- Can also work with included gift items

Buying Non-Returnable

- Look at your return history with that vendor or similar vendors. Calculate % of books returned (RET)
- Figure out average credit received on returns per year, less shipping
- Calculate retail price of books purchased from that vendor, and then wholesale at both returnable and non-returnable discount levels
- If the difference is less than credit received, it's not worth it.

Non-Returnable Example

- Last year, we returned 7% of purchases to Vendor X
- We purchased $10,000 (retail) from them last year
  - At 42% (returnable), we spend $5,800
  - At 50% (NR), we spend $5,000
- We got $406 credit and spent $50 on shipping
- Savings buying NR is $800, effective credit is $356; switch this vendor to non-returnable!

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Thank You!