

Financial advice for self-publishers



The only writer on self-publishing who gives financial advice is Mark Coker, the CEO of Smashwords. It's in *Secrets to Ebook Publishing Success*, which is available on Smashwords or from Amazon. It's free.

There is plenty of good advice on marketing. The advice on publishing is sometimes contradictory, but it's there. You can work it out.

What's missing is basic, sound advice on finance and business. In this article I am going to cover some of the basics that everybody – self-publisher or not – needs to know when they set up their own business.

I am also going to point out some of the problems with the standard business advice that self-publishers are being given - particularly over editing and cover design.

Self-publishing is a business

Writing, to many people, is a serious, spare-time leisure activity. However much you dream of success, it isn't the way you make a living. It's a hobby.

When, these days, you finish the book, you probably think about self-publishing. That can feel like a hobby as well.

Beware the Inland Revenue

HMRC - Her Majesty's Revenue and Customs - don't agree. If you are offering goods or services for sale you are trading.

The same applies, for example, to selling goods on Ebay or renting out a spare room. It's a business.

If you are running a business you are required by law to do two things that involve HMRC.

Register for Tax

You are required to register your business with HMRC, even though you are almost certainly already paying PAYE. You can do this online.

The best option for most self-publishers is to register as a sole trader. This simply means you are in business for yourself, and you are not in a partnership or involved with a company.

You will need to get a Government Gateway password. At the end of the process you will get a unique taxpayer ID.

Your unique taxpayer ID enables you to register with the United States Internal Revenue Service on Smashwords to avoid having 30% of your US earnings withheld against tax. You can complete the same declaration on Amazon using your NI number.

Completing a Tax Return

You will need to complete a tax return *even if you don't make a profit*. This may seem illogical. It's the law.

Self-publishing, as a business, is pretty simple. Completing a tax return as a self-publisher is correspondingly simple. It helps if you have a basic idea of book-keeping.

You have at least one other important legal obligation.

Keeping Accurate Financial Records

The law obliges you to keep accurate financial records for your business. This means you must record every separate sum of money received, and every single payment that you make.

What none of the self-publishing manuals tells you to do is something very elementary. You should *identify your overhead costs*.

Overheads

The direct costs of a business are the costs of manufacturing and distribution. All the other

costs are overheads.

The inescapable overheads of running a small business are things like postage, phone, stationery and computer costs. If you feel you need to identify your business telephone costs you will probably have to buy a separate phone. They are pretty cheap.

If you are writing non-fiction you are very likely to have research costs. This may be travel, or it might be buying books or magazines.

A self-publisher will have some publishing costs. Unless you choose to publish Print on Demand paperbacks they will be minimal.

If you publish paperbacks you will need ISBNs. Services such as CreateSpace will sell you single ISBNs. It will be their prefix. If you want to buy your own a block of ten numbers (these are UK prices) costs £149.

Business Accounts

It's not a legal requirement, but pretty much everybody will tell you to get a separate business account. You will find if you do that, keeping track is much simpler - and if you don't, it's very easy to get in a complete mess.

Book-keeping

Book-keeping is easy. You don't have to do double-entry.

You don't need to hurt your head with such things as accruals. You don't need to distinguish between cash flow and profit and loss.

All you need is a cashbook.

You don't need to buy printed stationery from Rymans. You can do everything you need in an Excel spreadsheet.

If you have not done book-keeping before you will probably need to buy something on Amazon. The problem is that even the simplest recommendations are more complex than self-publishers probably need.

If you like you can try something like this.

	Date	Payee	Item	Income	Total	Stationery	Computer	Publishing	
B/forward				56.27	457.93	140.18	177.71	150.35	
	1/1/2017	Rymans	Paper		4.99	4.99			
	8/1/2017	Hosting	1&1		3.59		3.59		
	15/1/2017	Nielsen	ISBNs		149.00			149.00	
	22/1/2017		Sale	8.99					J. Doe
This month				8.99	157.58	4.99	3.59	149.00	
C/forward				65.26	615.51	145.17	181.30	299.35	

Note that you have in effect two totals at the bottom of the sheet.

'This month' excludes the 'Brought forward' total from the previous month. 'Carried forward' is 'Brought forward' plus 'This month'.

You can add columns for post, phone, research, advertising and so forth.

You may want to add a column for 'Capital' to the left of income to record the money you

put in. This is unorthodox but it will work.

At the end of the financial year you set up a sheet with the same column headings and a row for each month.

The totals will enable you to complete your tax return for the HMRC.

Your total expenses minus total income is your profit or loss for the year.

It really is quite easy!

Budget

Self-publishing is a slightly misleading term. It covers a number of approaches which are related but not identical.

What all the approaches have in common is ownership and risk. The writer retains copyright. The book is published under the author's name, or the name of an imprint that the author has registered.

The writer of a self-published book finances publication, retains any profit and has to finance any loss.

The difference is who does the work.

Artisan self-publishing

There is a group of authors who like to do everything themselves. They format their eBook files, lay out the pages for their print on demand paperbacks and - despite the propaganda -

create their own covers.

They need time, which not everybody has. They will need to learn new skills.

Time, of course, has a cost. If you have to pay the rent and feed the kids you might be advised to work out the 'opportunity cost' of self-publishing: how much would you have earned if you worked the same hours in your usual trade?

If you do everything yourself your only costs are your overheads. Print on demand books and eBooks are free to produce. That is a quite extraordinary fact which has transformed the economics of publishing.

It is quite easy for an artisan publisher to publish a book in both electronic and PoD editions for £300-£400. If you are careful and cut corners you can do it for £200-£300.

Managing self-publishers

There are another group of authors who like to get things done by working with other people. They are - though they may not realise it - managers by temperament.

What I am calling 'managing self-publishers' are often known as 'author entrepreneurs' or simply 'independent authors'. This approach won't work financially unless you are writing for the market.

Managing self-publishers will typically hire a designer and an editor. This is a completely different level of cost.

Writers who adopt this strategy are competing in the marketplace with trade publishers.

Costs for entrepreneurs

Ed Peppitt in *How to Self Publish: A Guardian Masterclass* gives the following costs.

Editing: £350-£1,250

Proof-reading: £250

Design: £50-£750

Mr Peppitt doesn't give a figure for overheads, but I think we should: say£300.

The low-end cost of producing a book by this method would be £950. The high-end estimate is £2,550. It's a considerable difference.

The costs given by Joanna Penn in *Successful Self-Publishing* for editing, formatting and design are \$400 at low end and \$2,500 at the high end. At the post-Brexit rate of exchange that gives £325 to £2,025; with overheads, £625 to £2,325.

The difference between the high-end figures are not an order of magnitude. I am going to use Mr Peppitt's figures, as they are British and more recent.

Sales and prices

Mr Peppitt suggests that most self-published authors will sell less than 300 copies. I have heard other figures, but for the sake of argument I will go with Mr Peppitt's.

The 'sweet spot' for eBook pricing is probably £1.99 or £2.99. I am going to disregard Print on Demand sales.

If you publish with KDP and sell 300 copies at £2.99 you will receive 70% of the net, or £627.90. If you keep your publication costs to the low end of Mr Peppit's estimate, you will lose £322.10; at the high end, £1,922.10.

If you sell 300 copies at £1.99 - a price you presumably chose to encourage sales - you will make only 35%: £208.95. If you keep your costs right down you will lose £741.05.

Budding entrepreneurs are fairly unlikely to make a profit on their first book. Hobbyists, however, may make a few hundred pounds.

Sound advice

Mark Coker points out some basics. *'Now, a reality check: Just as most new businesses fail; most authors will fail to become commercial successes because most books don't sell well ...your book is unlikely to sell as well as you expect, or as quickly as you expect, or as well as you think it deserves... It's difficult to control or predict consumer behaviour.'*

Most new business fail in the eighteen months after the first twelve months. They fail when the owner's savings run out. They don't fail because the owner doesn't understand their trade. They fail because they get the finance and the marketing wrong.

Mr Coker's most important piece of advice is I think this. *Wait for the cash to come in before you start spending it.* Print on Demand books and eBooks are very easy to upgrade.

Honesty

Intending self-publishers need to be honest with themselves. They need to predict their costs as carefully as possible.

They need to make assumptions about sales. One assumption should be that there will be no sales. Your sales projection will then tell you what you will lose in the worst case.

If the worst case is what happens, how are you going to finance the loss?

There's an even more fundamental question that may be difficult to answer at the beginning. The further you go the more important it becomes.

Are you self-publishing to make money? Or are you doing it for some other reason?

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