Scaling Up: Recovering Costs to Enable Mission-Driven Library Publishing

Introduction and plan (5 min)

[slide 1: title and names]

Good afternoon. My name is Rebecca Welzenbach and I am the journals coordinator at Michigan Publishing. [Jason introduces self].

This talk is about Michigan's Publishing's efforts first, to understand what it costs to provide publishing services to our campus and beyond, and next, to use that information to develop a scalable, sustainable, yet affordable program of publishing services--and one that complies with the absurdly complex financial/accounting requirements of a large, non-profit, public institution like the University of Michigan.

[slide 2] There are two truths underlying what we're trying to do here:

1. We are basically at capacity for the support we can ask for from our university. If we want to grow/do more, we have to find the money elsewhere.
2. There is money available, frequently in departments and units on our own campus. And amazingly, folks are more than willing to give it to us. But we need an appropriate way to ask for it and receive it.

[slide 3: plan]

This session recounts our never-ending quest to act on these two truths. I'll start by walking you through our quest to answer the question, "What should we do?" What's worked and what hasn't over the years? Then, Jason will get into the details of "How do we do it?," describing our ongoing work to implement this strategy. Finally, we'll wrap up with some points and questions to keep in mind as you consider whether it makes sense for your institution to implement fees for publishing services.

Really this session could be called misadventures in cost recovery. It's a peek into the black hole that has swallowed us up as we try answer the question that our dean (and others) have asked, "Why don't you charge for this?" As we'll see, the answer is….because it's actually really really hard to do.

What have we done/ what should we do?

Background and scope

[slide 4: Michigan Publishing 3 branches w/ MPS highlighted?)]

Michigan Publishing is the primary hub for scholarly publishing at the University of Michigan. Our organization today consists of three branches: the University of Michigan Press; our institutional repository, Deep Blue; and Michigan Publishing Services. The Press is funded primarily through sales of print monographs and ebooks, while Deep Blue is funded by our University Library--we won't be talking much about these today.

[slide 5: publishing services home page]

Rather, we will focus on Michigan Publishing Services, established last year, which includes our long-running journals program, Print on Demand, and other service-based publishing projects--mainly open-access monographs and web-based projects. Supported neither entirely by sales nor by the library budget, Michigan Publishing Services falls somewhere between our more traditional press and institutional repository.

Phase I: Free for All

Although Michigan Publishing Services, as such, is less than a year old, we have been doing this sort of service- and mission-driven open access scholarly publishing at Michigan for more than 15 years. Our approach(es) to recovering costs and generating revenue have changed as our organization has grown and our leadership, mission, goals and needs have evolved. So, what have we done?

[slide 6: SPO homepage screenshot]

In the early days, our office, then called the Scholarly Publishing Office, or SPO, provided free hosting and journal publishing services to journals that agreed to make their content available online for free. We did this both for journals based on our campus, and elsewhere. In addition to OA resources, we hosted subscription journals and other toll access electronic resources, typically receiving 15% of the revenues generated by these.

[Slide 7: balance of open and toll-access resources]

Over and above our limited library funding, the revenue from these subscription resources helped to offset the costs of our OA projects. On this slide I show our two subscription journals, but it’s worth noting that these have never generated more than 2-3 thousand dollars per year. But other large projects, like the ACLS Humanities Ebook project that we host, have been an important source of revenue for us for many years.

At this stage--basically for the first 10 years of SPO--all revenue was generated by sales--either subscriptions or individual books. We did not directly charge any of our publishing partners for any upfront costs or services.

[slide 8: financial goals bulleted]

So our approach to revenue at this time reflects what we were trying to achieve. We wanted to:

- Generate resources beyond our limited library funding;
- Subsidize OA projects with revenue-generating projects;
- Incentivize folks to try open access by making a platform and support available to them at no cost.

Phase II: In for a penny

As we acquired more projects--many of them journals already gung ho about open access, rather than needing an incentive to try it--it became quite common for new projects to take several years to launch. Some faded away before they ever launched--often after we had put in a lot of time. Others languished in development for many years, only for an editor to come out of the woodwork, eager to launch immediately, just when we did not have the staff resources to focus on them. We had no good way of ensuring that our publishing partners were committed to completing and launching their projects in a timely fashion, or to plan ahead for when projects in development could be expected to launch. To combat this, from 2009-2011, the newly christened MPublishing began to experiment with setup fees.

[Slide 9: PTB]

This practice was first implemented with the open access journal *Philosophy and Theory in Biology* as a “rush” fee: for $2,000, we promised to get the journal up and running in 90 days. This price point was somewhat arbitrary. It was meant to reflect about how much staff time went into setting up and launching a new journal. Later data-gathering exercises revealed that this number really was about on target.

This $2,000 set-up fee became the rule of thumb for all external journals. At this time, we did not charge UM-based journals a start up fee. Additionally, we did not charge *any* of our open-access journals for ongoing hosting, support, conversion of content to XML, or other services. So, we were really not generating meaningful income or covering the costs of our staff with these set up fees.

[slide 10: show goal]

Rather, our **goal was to create a sense of value for our work and commitment on the part of our publishing partners**

Phase III: Tracking and Planning

It was not until around 2012 that we began to seriously investigate what it costs our organization to produce and launch our journals and other projects. For a number of months, our digital publishing coordinator tracked her time spent converting journal articles and issues.

[Slide 11: cost estimate template]

We used this information to develop a cost estimate template that is now part of our acquisitions process, so that every time we consider a new journal proposal, we are forced to consider what specific costs will be involved. As mentioned before, we typically waived this fee for journals with a significant Michigan connection--or when there was some other compelling reason to do so. However, we started to get pushback on this from our interim director, who encouraged us to start charging the setup fee for *all* new journals.

Where did this leave us?

So, more than a decade and many many many spreadsheets into this, what did we have to show for it? Were we rolling in dough? Well, no. In 2013, for example, we established partnerships with five new journals. One paid the setup fee, one paid a discounted fee, and three had the fee waived for one reason or another--all in all, this worked out to a whopping $3,000 in journal revenue that year. We received nothing from the existing 30 or so journals actively publishing or, of course, the handful of others that had ceased but that we continue to preserve. If we're aiming to offset the salaries of full time staff members, this is barely a drop in the bucket. We need to be more ambitious. But how? Here are a few approaches we've explored and either abandoned or are still wrestling with:

[slide 12]

- **[Subsidizing OA with revenue generating products—**truthfully, I think this always happens to some extent (for example, one project paying for all of a person who works on multiple projects). Nevertheless, It is important to us to demonstrate that OA *can* be done sustainably in and of itself--not just offset by something else.
- **A tier-based fee structure** In the past we have considered a fee structure that reflects different tiers of service, for example, providing a very minimal, inexpensive or free baseline, a middle road that's a bit more expensive, and a deluxe package with bells and whistles. For us this didn't make sense, mainly because of how our platform works: too much is already bundled in with even the minimal service that we're able to offer (this might work well for others, though).
- **Charging external partners a significantly higher rate while waiving fees for UM-based partners** Good idea--in ultimately, we will have to charge external partners more than we do internal ones--but it still is not sufficient: more and more of our activity is campus-based; we need a way to appropriately receive money from folks within our campus.

- **Subventions**: There is a precedent in university press publishing of asking for a subvention, just a flat fee to contribute to the production costs of the work. However, we have learned that we need to be more granular and detailed in accounting for our costs--as a unit of the university looking to charge another unit of the university, we can't just ask for a flat amount. We need to be more precise.

In short, trying to move from a world of free services to charging is hard; it's taken years and the results are, so far, incremental and tiny. That is, in part, why our new program, Michigan Publishing Services was established from the beginning with cost recovery as a requirement. We now know that with Michigan Publishing Services, we want to be able to:

[slide 12: MPS goals]

- **Scale up sustainably--and quickly, if needed**, responding to faculty demand for new services and projects and providing better tools and infrastructure to their partners.
- **Advertise services and recruit new offerings clearly and proactively**, rather than scrambling to estimate costs for each new project or turning away projects due to insufficient capacity.
- **Steward university resources--such as departmental funds, research funds, grants, etc.--well** by leveraging existing skills and vendor relationships to meet faculty needs in an efficient and mutually beneficial way.
- **Cover costs upfront** (or at least know up front that they will be covered) rather than depending on sales
- **Ask our campus partners to invest/share the risk of taking on a publishing project**

What should we be doing?

What, then, should we be doing? What sort of model will help us achieve these goals? In 2014 we have been working to refine and implement a program that will help us to achieve this. Ultimately, we determined that the best way to proceed is a combination of:

- Charging our publishing partners for our time and
- Directly passing along to our partners the invoices to cover the costs of any third-party services (such as typesetting or copy editing).

[slide 14]

This has been a very long and complex way of saying: Figure out how much it costs to do the work, and ask for that much money. This sounds so simple! Would that it were so. So, how do we do it? Over to you, Jason

How do we do it?

We all agree that "recovering costs" is a good thing. The problem is figuring out what that actually means, and how to do it. In a non-auxiliary environment like most Library Publishing programs, you can't just decide what the market will bear and charge it. You have to follow your institution's rules, which, if you're at a public school, are probably designed to prevent a publicly-subsidized institution from competing unfairly with private businesses. That means doing a lot of legwork initially to analyze your costs and demonstrate fairness before you can start taking money systematically.

A lot of people who may not understand your work have a lot of control over what and how you can charge for services and products. You may have to explain yourself to a library business office, the central University business office, financial analysis officers, attorneys, and development and grant officers. These people have probably never heard of your vendors, and they might never have heard of Open Access. At Michigan, they're housed in their very own special tower off campus.

Slide: Wolverine Tower 1

(Err...I think that's the wrong tower)

Slide: Wolverine Tower 2

There we go.

Slide: Working with the Bureaucracy

If you want to start recovering the costs of your publishing activities, it's important to have realistic expectations about the bureaucracy you'll have to deal with. In a world that's used to instantaneous online payment, having to wait 30 days or more to see an invoice paid or issued can be very frustrating to your partners. But the bureaucracy can work in your favor, too, if you know how to use it.

If you work through a central finance office at your College or University, the first thing you'll want to sort out, well before you try to charge anyone, is the requirements that office has for accounts payable and receivable.

For instance:

Do they require that all payable invoices be sent to them directly? Do vendors have to include certain information on their invoices? (At Michigan, all invoices must include an email address to contact the unit being billed for approval, or they will be sent back to the vendor unpaid, without notifying the unit being billed. Some vendors have will have trouble incorporating these requirements into their own inflexible billing systems, so build in a few extra weeks when you first begin working with them.) All of this can be pretty annoying.

On the other hand, an advantage to working through a central finance office outside your unit is that – in many cases – you get to outsource your Accounts Payable and Accounts Receivable. By letting the central finance accounts payable and receivable will automatically adjust your account for all invoices, regardless of whether or not they've been paid. Then they will go after payment on your behalf, so you don't have to spend your time hounding folks who owe you money. They're better at it than you are, and not having big holes in your budgets where payments due can help to keep your program moving.

Working with your College or University's central finance structure has more advantages than just bookkeeping, though. Maybe the most powerful instrument we've found at our disposal for recovering the costs of our publishing activities is the Recharge Rate.

Slide: Recharge Rates

So, what's a recharge rate? To put it simply, a recharge rate is a method of accounting, required by Federal regulations, that allows your unit to transfer the costs of staffing and direct costs that you incur on behalf of other units at your institution – or on behalf of external organizations – to those units without having your salaries directly paid by the other units. You can think of it as a way to put your staff partially on other budgets without changing reporting relationships. It can be a complicated instrument to use, but it (or something like it) is required at Michigan and many other institutions for doing cost recovery.

Slide: What a Recharge Rate Looks Like (Fixed Menu)

There are two main ways to calculate rates for a recharge. The first is to determine a fixed menu of services that you'd like to charge for (say, copyediting coordination, typesetting, proofreading, web design, XML conversion, developmental editing, etc), and then assign a per unit (often per page or per book) cost to these services. If you choose this path, you'll need to figure out what, on average, it costs to perform each service for a publication, then divide by the average number of pages – or break it down further into different tiers of complexity, such as light/medium/full copyedit. This involves measuring the time that a staff member spends on a task, then extrapolating costs per page based on their salary. This is possible, but it can be so hard to do that you'll want to throw your hands up and run away (and unfortunately running away from your responsibilities is not a billable service.)

Slide: What a Recharge Rate Looks Like (Hourly rates)

The other way, and the one we chose, is simpler: create the menu of services you'd like to offer, but simply take the average hourly rates of the staff members who perform them and slot them against each item on the menu. This won't allow your clients to see an exact per-page rate in advance, but they probably won't be looking at the recharge itself anyway: you can create an estimate for them on a project-by-project basis, and most of the time they'll be happy as long as you are pretty close. Either way passes muster with the folks in the tower.

Slide: Recharge Rates and your Budget

OK, so here's where I magically transform from a librarian into an accountant.

[change glasses]

On the backend, Recharge rates function something like a cross between a grant and a Health Savings Account. When you create a recharge account, you must allocate portions of staff members' salaries to it, like you would when you put a fixed dollar amount per paycheck into your HSA at the beginning of the year. By projecting how many hours each staff member will spend doing recharge-related activities each year, you can divide that figure by the total hours they'll work per year to get a % of their FTE to allocate to the recharge.

This is also kind of like a grant, but the difference between a recharge and a grant is that, since your clients will be paying into the recharge via incremental invoices and funds transfers, it's possible to be in deficit if you overestimate how much you'll be doing, and in surplus if you underestimate. So, let's say you anticipate that a staff member making $50,000/year will spend 20% of his time working on doing copyediting for recharge-related book projects, and so $10,000/year will be paid by into the recharge to fund this part of his salary. But, he only ends up working on recharge projects 10% of the time instead of 20%, leaving you with a $5,000 deficit in the recharge account. At the end of the fiscal year, you'll need to make up the difference by transferring funds from other accounts into the recharge account – or else the Controller will probably get upset with you. You'll need to stay within a few percent of the amount allocated to the recharge at the start of the fiscal year, across all staff members. Like the health savings account, if you don't get the numbers right at the beginning of the year, you get in trouble later.

Slide: Demonstrating Costs via Recharge Rates

So, you're probably thinking, "This is really complicated, why should I even think about dealing with this?" The obvious answer is: you probably have to. Although you can probably get away with rebilling some activity within your institution by fund transfers without anyone noticing, as soon as a professor comes to you with a Federal grant-funded publication, gift funds, or other money that is strictly monitored and must observe Federal guidelines, you'll get into Recharge-land. You won't be able to claim the money without it going into a recharge.

But there are intangible benefits, too. For one, an approved recharge rate gives you a tool to demonstrate something close to the true cost of the publishing activity you're doing. So when a Dean asks you why it costs $5,000 to copyedit and typeset her faculty member's book, you can break down the costs – not just with external vendors, but for internal staff as well – much more accurately than you could if you hadn't done the work to set up a recharge. And you can say that all of these costs have been reviewed by the proper Finance folks and have the stamp of approval from the Tower. It's hard to argue with that.

Slide: Capturing Time

Whether you do it up front when you're calculating a fixed menu of per-item rates, or whether you do it as your staff work on projects, you'll need a way to capture time. At Michigan Publishing, we've tried a few different methods, and hope we've settled on one that staff don't completely hate.

Slide: Google Doc for Time Tracking

First, we tried a Google Sheet, where folks could record how much time they'd spent on different tasks for a given project. We'd then export this Google Sheet as an Excel Sheet and hand it to our business office to handle recharges. This didn't really work out well – having to recreate it on a monthly basis turned out to be a good opportunity to mess up the formulas, there was no good way to automatically populate the project names, and people just tended to be pretty cranky about the interface.

Slide: Toggl

So the next thing we tried, pretty recently, was a paid web app called Toggl. Toggl is a much nicer experience: you can set up teams and then assign projects to them, either record elapsed time or input your own estimates, and assign billable rates to different people. It'll export a CSV file for you that you can use to create periodic reports of time spent on different projects. It's not perfect, but people do seem to prefer it to the Google Sheet solution. There are definitely other time tracking services out there, and you should look into them and figure out what works best for you.

Regardless of how you do it, make sure to keep your increments humane: an hour or a half hour is manageable, but if you ask your staff to report what they're doing every 5 minutes, you might not have a staff anymore.

Slide: Where we are right now

So, where is Michigan Publishing Services right now with cost recovery?

Our First Year Goal is to recover approximately these percentages of staff costs:

30% of a Digital Publishing Coordinator

10% of the Director of Publishing Services

10% of the Print Services Manager

5% of a Front-end Web Designer

5% of an Accountant

25% of our students

Plus 100% of external vendor costs related to projects that are subject to the recharge.

The rest of our operating costs will continue to be subsidized by the Library or generated from product sales and hosting revenue, like Rebecca mentioned earlier.

Our current plan is to scale up slowly: as recharge activity grows, we will first add student and temporary staff, and when it is clearly warranted, consider funding additional permanent staff from recharge activities.

Now back to Rebecca for a few closing thoughts.

What should you do?

So, we've talked through some really complex and nitty gritty stuff here. To return to the big picture, we really just want to leave you with two main ideas:

- First when you're functioning in a non-profit and possibly publicly funded environment, setting prices and charging fees may be very complicated and take a lot longer than anyone would think is reasonable. Do you have support for things like invoicing, accounting, etc. ? Consider all the parties who may be involved, seek their guidance, and be prepared to explain yourself and your work over and over again
- **And second,** "cost recovery" is not just numbers. What it means to recover costs will depend on how your work fits into your organization. What's the story of library publishing at your institution, and are your business models consistent with it? For years we've been trying to revise our existing story. With Michigan Publishing Services, we're trying to write something new from scratch.

Because of this, we don’t have an easy recipe that we can recommend you follow, though we do hope you might be able to avoid some of the missteps that we have made along the way. We’d be happy to keep in touch or speak with you individually--and we look forward to seeing and reporting out on where we are a year from now!