

July 25, 2017

To: Dr. Chaouki Abdallah, Dr. Craig White, and the UNM Board of Regents
From Paul Rhetts, co-founder New Mexico Book Co-op

First, I would like to thank Dr. White for taking the time to meet with members of the New Mexico Book Co-op yesterday. About 80 of our 1,600 members attended which was a great turn-out considering that 95% of our group lives/works outside of the Albuquerque area (45% actually work in other states). Dr. White's presentation was quite informative to say the least.

As a follow-up to that meeting, the Co-op would like to share a few more thoughts on the matter as you explore ways of making plans for the future of UNM Press (UNMP).

Dr. White on several occasions stated that the purpose for these discussions was to bring UNMP back to a solid financial footing. That is very clear for all to understand. But when discussing options, however, one must make decisions in a fair and equitable manner. The major short-coming from the meeting yesterday was that Dr. Craig only presented one option for UNMP's future and that was moving all of UNMP's warehousing to somewhere else. No information was presented by Dr. White as to other possible options. So we would like to identify at least one other option for the future for UNMP.

First, apparently UNM is considering giving the Library a pass on the annual rent of the Press warehouse if they take it over for library use. Second, UNM is apparently willing to totally clear off the books the reserve debt of about \$5.8M if the UNMP is put under the control of the Library. It would seem to us in the Co-op that if you are willing to wipe these out under the Library scenario, why don't you do the same with the UNMP when considering any other options.

The one option that Dr. White presented was to move UNMP under the Library, move the UNMP out of the existing warehouse to somewhere else and downsize the staff, travel, and title output. This is clearly one option that UNM should explore, but if you do explore this approach please make sure you are using good numbers.

1. If the warehouse is converted to Library use it will need new capital funding exceeding \$500k and the UNMP will need new funding for upwards of \$400k for freight costs to move the books. In hard financial times, where will you find nearly \$1m to pay for these expenses?¹

¹If the warehouse is closed, UNMP will save \$140K in rental but would incur about \$265K to \$429K in freight costs just to get the stock to a new location; plus, the UNMP will have to be down for a couple months as far as sales go while all the inventory is moved and re-stocked. In addition, outsourcing the warehousing and fulfillment to a 3rd party will reduce the income from sales by 12.5% to 20% per year due to the 3rd party fees, or a loss of \$360K to 602K. That will make the financial picture even worse.

2. If the distribution of books moves out of state, UNMP is likely to lose up to \$300k per year in fees from Distributed Presses as several of them have already told you they would pull out of UNMP if the move takes place²
3. If UNMP moves its distribution out of state there will be a loss in total income from sales. Regional bookstores have already indicated that if the warehouse is moved elsewhere they will order fewer books from UNM; some have even indicated they will not order any.
4. Your Option #1 calls for reducing UNMP marketing staff attendance at major academic conferences. This may save a couple thousand dollars in travel expenses, but you have not considered the loss of revenue this will cause which far exceeds the savings from less travel
5. Your Option #1 calls for reducing the number of titles produced per year. On paper that sounds like one would save on staffing needs and production costs. But none of the documents that have been shared by Dr. White or through IPRA have looked into the collateral loss in income due to fewer titles. This also puts a strain on the remaining titles to produce income that may exceed actual sales. Changing the ratio between trade and academic has far-reaching implications that don't seem to have been explored. Your trade titles are producing more income than your scholarly titles and that is to be expected. But by reducing the annual output from 72 to 60 and reducing the trade ratio, you will have a negative impact on the income you can expect.

It would appear that who ever is exploring this option at UNM hasn't calculated all the possible outcomes as the simple act of moving the warehouse out of state will actually move UNMP from a deficit of \$500k to a deficit of over \$1.25m. I doubt that is what you want as an outcome.

Who UNM Press reports to on the UNM Organization Chart is much less important than micro-managing the inner working of the Press. The balance between profit and anything less is very fragile in the book trade; and especially in the academic book business where your own consultants have been shouting that "no press can show a profit just on the sale of books." This is not a question of whether the Press should be under the Library³ or under

²If the warehouse closes and you look at the 35 distributed presses, you will see that the distributed presses account for \$600K per year or about 19% of the budget. The largest distributed press has already communicated that to the UNM President that they would not participate in such a move. The 2nd largest Distributed Press expressed the same position at the meeting with Dr. White. If UNM damages the relationships with these distributed press it stands to see serious negative impact on the budget for UNMP. It looks like the minimum damages will be in the tune of \$300K per year if the warehouse closes.

³If the Library supports the mission of UNMP as one of its parts, then the Library should be willing to contribute the necessary money to make UNMP able to meet its mission; the Library should support UNMP by the amount that their own consultants are recommending, namely \$600K per year. In addition, the Library should be willing to contribute \$10K to the production cost of every title that UNMP releases each year. That would add between \$550K and \$720K per year to the budget. Supporting the Press at the level recommended by AUP and eliminating the rental fee for the warehouse would immediately put UNMP back in the black without doing anything else.

Academic Affairs, or even the Business Management Department of the university.

On another matter, if the Library needs more warehouse space and the Press is at its maximum now, maybe the university should be looking at acquiring a new larger warehouse space that could accommodate both needs and save some money at the same time rather than wasting nearly \$1m to put in new shelves and ac.

We would like to suggest a "new" option that you probably have not explored or at least shared with anyone outside the small executive circle at the university.

New Option

Since you seem to be willing to forgive the warehouse rental for the Library and the entire Reserve deficit, just do that. Right there you have reduced the Press's annual imbalance by nearly 20%.

1. Reinstate the travel reduction, and reinstate the 2017 level of output so as to not reduce any income levels
2. For the 1st time in its 88-year history, establish a level of on-going support for the Press that recognizes the value of the Press in preserving the culture and history of New Mexico. Also recognize the value of the great books that the Press produces each year (many of which also win awards for the University). Each title that the Press produces carries with it an inherent pr value for the University as a whole. AAUP indicates that the average level of support that a university should give to a press the size of UNM Press is around \$600k per year. If you cannot support that formula we would like to propose another approach to assigning value. Each title that the Press produces each year could generate at least \$8-10k in pr value⁴ each year. Make the level of support by the university based on that. That would add \$576k to \$720 to the income side of the balance sheet. The bottom line is that UNM can bring the Press to a more stable and sustainable financial footing merely by waiving the annual warehouse rental fee and support the press and its mission on a per title basis. This approach would move the Press from an annual deficit of \$500,071 to a positive balance of about \$267,345. It would go from an annual deficit to a surplus all that without closing anything, firing or losing any more personnel, or changing anything at all with the annual production schedule of the press.

⁴Good business practices would add the value of public relations to all these calculations. UNMP generates 60-70 new titles a year, each generating an opportunity for great positive exposure for the University. A common value for that would be in the area of \$750K and \$1M per year. And this does not even count the pr value of award-winning books.

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UNM Press Options

		Move Warehouse to Library add 3rd Party Distribution	Leave UNMP Warehouse as is
eliminate warehouse rental eliminate reserves		\$ 164,373 \$ 5,855,633	\$ 164,373 \$ 5,855,633
	FY16	Option #1	Option #2
Revenues	\$ 3,010,789	\$ 2,019,373	\$ 3,586,789
Expenses	\$ 3,510,860	\$ 3,276,487	\$ 3,319,444
Balance	\$ (500,071)	\$ (1,257,114)	\$ 267,345
		251.39%	-53.46%
Reserves	\$ (5,855,633)	\$ -	\$ -
Other New Expenses		\$ 900,000	\$ -
Library renovation costs		\$ 500,000	\$ -
Freight to new 3rd Party Distribution		\$ 400,000	\$ -
3rd Party Distribution fees	NEW	\$ (400,000)	\$ -
Lost Revenue from Distributed Presses	NEW	\$ (300,000)	\$ -
Reduce travel expenses 20%		\$ (9,043)	\$ (9,043)
Reduce revenue due to fewer marketing events		\$ (18,000)	\$ (18,000)
Reduced income due to fewer trade titles		\$ (70,000)	
Reduced income due to fewer total titles		\$ (30,000)	
add UNM support by \$8k per title			\$ 576,000

In the final analysis, UNM has stacked a committee to explore this matter with people who have "no" experience in the book trade or even the delicate balance of retail business. Micro-managing minor items such as travel expenses and the like by people who do not understand the consequences of such actions, is very dangerous. As such you are getting an incomplete and biased picture of what your options are. The future of UNMP deserves more from the university than a bunch of academics with no real world experience.