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Library Planning and Budgeting: A Few Underappreciated Principles

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FROM THE COLUMN EDITOR, Wanda V. Dole

This column focuses on the closely related topics of strategic planning and assessment in all types of libraries. The column will examine all aspects of planning and assessment including (but not limited to) components, methods, approaches, trends, tools and training. The column will appear in even-numbered issues of the journal. Interested authors are invited to submit articles to the editor at wvdole@ualr.edu. Articles on both theory and practice and examples of both successful and unsuccessful attempts in all types of libraries are invited.

In this issue, Robert P. Holley, Professor of Library and Information Science at Wayne State University, looks at several important points about library planning and budgeting from his twenty five years' experience as a library administrator. He chose these topics because they most often come as a surprise to students in his library management classes as well as his library colleagues. Understanding these few underappreciated and less than obvious management principles can help library managers grasp how libraries are different from for-profit organizations and how they can avoid some planning and budgeting traps.

Library Planning and Budgeting: A Few Underappreciated Principles

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The experienced library manager knows that "love **doesn't** make the world go round." Money, funding, cash, fiscal support--whatever you want to call it--does. The head librarian has to pay staff, buy materials, and offer services to keep the library in the good graces of its patrons. I've learned from twenty-five years' experience as an administrator that library planning and budgeting are different from personal or for-profit planning and budgeting. I've also discovered from twenty years as a professor who teaches library administration and management that the following five principles come as a surprise to most students and also to many of my library colleagues. I will focus on the several principles of library planning and budgeting that may appear illogical on the surface but upon closer examination make sense. Those seeking practical tips should look elsewhere.

Principle Number One

The library with a fixed budget and the likelihood of continued funding does not have the same need to provide excellent service in the short run as a for-profit enterprise. In the long run, however, not doing so is disastrous as the library will become irrelevant to its users.

I am assuming in this article that the library of whatever type does not directly generate its own revenue but is supported from an outside source. This source could be a college or university, a dedicated tax millage, city government, a school district, or some other institution. This definition excludes the relatively rare case, usually in special libraries, where the library bills another unit for its services and prospers based upon the amount of service that it provides. I also assume that the library has a reasonable expectation of continuing support. A dedicated millage is the most assured source of funding, but most other libraries make the reasonable assumption that they will be funded next year, even if at a reduced level.

Junior level librarians can draw the conclusion from continued funding that hard work and good service aren't really necessary because they will still have a budget next year, especially for the manager's salary. Many have also learned that the body that distributes the funding doesn't pay all that much attention to the level of service as long as the doors are open and the funding body doesn't get too many complaints. Exceptions exist where administrators and boards pay close attention to service delivery; but I believe that these cases are not all that common and that, even here, personality issues may be more important. Having tenure or some other form of guaranteed employment also helps lazy managers keep their jobs.

Contrast this situation with for-profit or non-profit organizations that must generate their own revenue. (For the sake of simplicity, I'll be using "for-profit" to cover both situations even if some non-profits face the same challenges as for-profits.) These organizations must make money to continue to exist or have reserves from past revenue generation or outside support to carry them through difficult times. If the for-profit doesn't make enough money to pay its bills, it goes bankrupt. Many major corporations that were household words have disappeared. Examples include TWA, Montgomery Ward, RCA, and Enron. I doubt that the Chicago Public Library or the Yale University Library will ever suffer this fate. The exception may be school libraries, but funding cuts are most often the issue rather than the quality of service. In fact, school librarians at risk are much more likely to provide excellent service and to do everything they can to justify their continued existence.

The experienced library manager knows that, down the road, bad service has the potential to bite you in the behind. Users remember the times when the librarians gave the impression that the patron should go away to let them get back to their conversations, reading, or surfing the Internet. Patrons sometimes even notice that the library is way behind the times and still believes that print is the only medium and that mobile devices don't exist. At some point, most libraries face a millage election, need to defend themselves at a public hearing, or count upon the good will of students and faculty to keep the budget from being cut. Then, having provided excellent service makes a big difference even if the inexperienced manager was correct that doing so didn't penalize the library in the short run.

Principle Number Two

The worst result from providing a new free service is not too little use but success beyond expectations.

The for-profit organization has a strong incentive to introduce new services and upgrade current ones because doing so increases revenue. If the parcel delivery company offers a service upgrade to deliver packages in the evening, those who chose this option normally pay more and increase the company's revenue. As long as the company has correctly priced this service, its wild success means that the company has the resources to hire more drivers, buy more trucks, and even keep the offices open longer hours. In some cases, a company might experience temporary dislocations in not being able to meet demand quickly enough; but the end results will be favorable, especially since leverage normally means the unit cost declines as use of the service increase. The goal of a for-profit is profit, and the new service helps the company reach this goal.

The library, on the other hand, faces a different challenge when it offers a new "free" or heavily subsidized service. "Though for-profit organizations can use revenue and profits to support further NPD efforts, nonprofits rely to a great extent on funding from external sources such as the government, foundations, and for-profit corporations." (Barczak, Kahn, & Moss, 2006) The same principle applies for libraries though many reallocate funds from internal sources. Since the library doesn't receive additional revenue from the new service, the experienced library manager must carefully estimate the amount of anticipated use. If the service proves to be wildly popular, the library doesn't automatically receive additional funding to meet the unanticipated demand. The options are limited. The librarian can appeal to its funding body to provide additional resources for a service that has proved so popular with users. A second option is to divert resources from other parts of the operation with the risk that declines in those other areas will have negative overall consequences for the library. Especially for a "free" service, a small charge may be enough to reduce use to more reasonable levels. For example, charging even a minimal amount for interlibrary loan will discourage frivolous use and cause users to evaluate more carefully their requests. The last possibility, unfortunately the most likely, is that the quality of the new service declines to the point that patrons stop using it. After a burst of enthusiasm and heavy use, patrons become disgruntled over what they consider to be unfilled promises by the library.

To avoid the problems described above, the experienced library manager should plan carefully for any new services including a trial period to determine demand. I also advise offering the new service early enough in the budget year to be able to add funding for next year. Finally, thinking about and planning for a wildly positive reception that drains the budget should be one of the first steps in the planning process.

Principle Three

The library no longer has a monopoly over information but has become one more clothing store in the information mall.

The arrival of the Internet has profoundly changed the competitive status of libraries. “The second great shift, the 1990s, was the age of the Internet. For centuries libraries were the primary source for information and materials, but the Internet broadened the meaning of library science and the potential for sharing information. Now, academic libraries are competing with information sources not just created by scholars, but sources created by everyday people who were challenging the library and faculty as the gatekeepers of knowledge.” (Curzon & Quiñónez-Skinnerb, 2009) Thus, before the Internet, libraries had close to a monopoly on information delivery. Google and Amazon didn’t exist because selling or giving away information wasn’t profitable. Libraries were the place to go for quick facts from print books and more in-depth information perhaps from a database that the public couldn’t use because the per-minute charges were too high. Students and faculty came to the library because they had no other inexpensive alternatives for getting their tasks completed. As a result, libraries didn’t have to do much marketing. Patrons had to learn to use irrationally complex resources with double and triple lookups and finicky equipment like microform readers to find what they needed to know. They also made librarians feel important by frequently asking for help. Academic librarians didn’t worry about reaching out to the students in the classroom because they knew that they had to come to the library. Before Amazon.com and other online sites, buying books was a complicated process of finding a bookstore and placing a special order if the bookstore didn’t have the wanted item. People who could have afforded buying their reading materials still found coming to the library easier.

The Internet changed all that. Google and Wikipedia have replaced ready reference and allow students to complete their assignments well enough that many teachers accept their work and assign reasonable grades. Experienced library managers understand that they need to provide library tools as simple and easy to use as the commercial ones or patrons won't use the library. They must also market their services to faculty and students since bibliographic instruction, information literacy, or whatever you wish to call it is the justification for keeping their jobs with the reduced importance of the reference desk. Many patrons now buy their own books rather than coming to the library because Amazon makes it easy to order them. Digital books are immediately available. Print materials arrive in a few days at the buyers' front door. Furthermore, prices are lower because of competition in the digital world and in the out-of-print book market. With 40 million titles for sale, even the most obscure books are usually available.

From being a monopoly, the library has become just another clothing store in the information mall. The library must compete with excellent service, with the availability of materials that patrons want whether or not the librarians believe they are appropriate for the library (manga, computer games, erotica), and with entertainment (programs, art shows, happenings). The one positive is that patrons can't afford most databases that they want to use, but even here many patrons forget that the library pays for them. In fact, the most telling advantage of the library is that it's free while the other information providers either charge or bombard their users with advertising.

Principle Four

The important factor in budgeting is often not the average cost of a service but rather the cost of providing the next unit of service.

The experienced library manager understands why the American Library Association can afford to offer students a reduced membership rate of $34 (ALA Personal Membership, 2014) when ALA expends around $881 per member ($50,903,949 in 2014 expenditures divided by

57,765 personal members). (ALA Treasurer's Report. Council Document 13. 2014 and ALA Annual Membership Statistics, 1900-Present., 2014) Most might think that ALA provides the reduced rate to induce students to become regular members. While this observation is true, ALA isn't committing economic suicide by doing so. The cost of adding one more member is minimal compared with the average cost. All the new member requires is minimal additional clerical work, a few mailings to get the new member added to the rolls, one more copy of *American Libraries*, and perhaps some other costs I'm overlooking. Having one more member has little effect upon the massive existing structure of ALA. Besides, the new member might attend a conference, purchase a Webinar, buy a publication, or do anything else that members do to create revenue for ALA. To put it another way, "when average cost is declining as output increases, marginal cost is less than average cost. When average cost is rising, marginal cost is greater than average cost. When average cost is neither rising nor falling (at a minimum or maximum), marginal cost equals average cost." (Average Cost, 2014)

To give another more personal and perhaps clearer example, the IRS deduction for driving one mile for business travel is $.56 (http://www.irs.gov/2014-Standard-Mileage-Rates-for-Business,-Medical-and-Moving-Announced). Does this mean that a car owner saves $.56 by avoiding a one mile trip to the grocery store? Of course not. This figure above includes depreciation, insurance, taxes, and any other fixed expenses. The drive to the store includes only the direct cost of the gasoline used, some small amount for additional maintenance, and perhaps an increase in the insurance premium if based upon miles driven. In fact, the more someone drives, the more the costs per mile come down even as the direct expenditures increase. Conversely, costs per mile are much higher for the proverbial old lady who drives the car only to church on Sunday.

Why is this important for the experienced library manager? In some circumstances, this principle overrides the correct budgeting principle of including all fixed costs in determining the expense of a service. I remember a case study where the library director is thinking about stopping interlibrary loan within the consortium since the lender reimbursement doesn't cover the costs as correctly determined using both fixed and variable costs. With the savings, she plans to hire an additional librarian. Her calculation, however, doesn't consider that the library will save nothing on any costs connected with the use of the space, won't save on staffing unless staff are let go, and will lose the ILL reimbursement. The only savings might be in the direct mailing costs. The library might repurpose the space and staff costs to another use, but this doesn't put cash in the pocket of the library director. The same principle will apply to other transactions. Removing books from the collection, even if the accurate cost for storing each one is $4.26 per item annually, (Courant & Nielson, 2010) saves nothing unless doing so avoids expensive construction or the space is rented out to another unit. On the upside, most libraries can absorb grant overhead costs even when legitimately calculated because these costs add only a few more transactions to the various units in the library (human relations, the business office, etc.).

Principle Number Five

Having a rough idea of costs is better than having no figure at all.

In many cases, the experienced library manager can make decisions based upon rough estimates without going to the trouble of establishing detailed, accurate figures that require significant effort. This principle applies to most services since many libraries don't have any idea what they cost. Some libraries did all they could to reduce original cataloging once they made rough estimates of the cost per record compared with the value of the items that were being added to the collection. In a similar fashion, many libraries may not want to calculate what answering a reference question costs because they don't want to know. Having these rough estimates will often suggest where to look for savings if the library faces budget reductions. Often, the obvious cutbacks won't provide enough savings or will cut services that are inexpensive for the value they provide. As an example, while cutting library hours seems to be a sensible reduction, the library often operates with very cheap student help with perhaps one full-time staff member who would remain even after the cut in hours. In fact, cutting one expensive administrator through reorganization or staff reduction is often the most cost effective way to reduce the budget.

Nonetheless, this principle is most important when considering a new service or in applying for a grant. The first step in considering writing a grant proposal should be to prepare a rough budget. This budget should include estimates for staffing, equipment, and outside services. Based upon this estimate, the library will often discover that the granting agency isn't offering enough funding to complete the project or that the benefits to the library aren't worth the costs, especially if the agency requires a matching contribution. If the library decides to move forward, one task will be to come up with the precise budget that should be within the range of the quick-and-dirty estimate.

Conclusion

These five principles won't turn anyone into a planning and budget expert, but they are a good start in learning to think like an experienced library manager. This manager should wake up every morning considering what needs to be done to keep the library financially healthy. To return to the key principle in the introduction, the library won't survive without financial resources. Getting them and maximizing the value of their use is a key task.

Some readers with little interest in budgets may be thinking that hiring a skilled business manager eliminates the need for the head librarian to deal with budgets. This decision has its risks. First, the head librarian may be asked budget questions in many situations where the budget manager won't be present. Appearing uninformed about financial matters does not inspire confidence. The more serious, if uncommon danger, is that the business manager may be a crook. Around fifteen years ago, the *Library Journal* Library of the Year was basking in the glory of this award while at the same time behind the scenes the business manager was embezzling a significant enough amount to money to cause severe operational difficulties when the theft was detected. It is generally a bad principle to place complete confidence in key subordinates such as the business manager and the head of IT. The head librarian should have at least enough knowledge of these two areas to suspect when staff are hiding serious problems.

I don't want to underestimate the value of practical budgeting skills. Understanding the written and unwritten budget rules of the larger organization is critical. Knowing how to prepare an effective budget presentation is also a key skill that includes selecting charts and graphs that make sense. A sampling of "minor" skills would include getting the highest safe return from any endowments, knowing how to "hide" money without breaking any laws or policies, finding ways to transfer funds from one budget year to the next when the official rules prohibit doing so, negotiating with vendors including preparing requests for proposals, and many others. While not strictly a budgeting matter, avoiding lawsuits is important since adverse judgments and legal fees can mean a significant financial hit.

My final point is that experienced library managers are best at planning and budgeting when they apply the same skills in their personal lives. If your household budget is balanced and you have a fat retirement account, you most likely will do well with the library budget. If your personal budget is a mess, I suggest strongly that you overcome any distaste for planning and budgeting in the library since doing so will also improve your personal finances. I like the challenge of budgeting and stretching dollars. You should too.

Recommendations

Recommendation #1: The health of the library's long term budget depends upon providing good service.

- Libraries, unlike for-profit organizations, do not depend upon generating revenue for their continued existence.
- In the short term, the library with assured continuing funding can give poor service and still be funded next year.
- In the long term, a library that gives poor service runs the risk of not getting support for the renewal of continuing funding or increased funding.

Recommendation #2: The risk in offering a new free or highly subsidized service is not that it will not be successful but that it will be so successful that the library will not be able to fund its success.

- Libraries, unlike for-profit organizations, do not get increased revenue when they offer a new free or highly subsidized service.
- A highly successful new service may cause problems by requiring more funding than anticipated.

- Funding a new service with unanticipated success may require taking money from other parts of the budget, limiting access to the service, imposing fees, or letting the quality of the new service deteriorate.

Recommendation #3: Libraries must realize that they no longer have a quasi-monopoly in the information marketplace.

- Before the Internet, libraries could give poor service and provide cumbersome tools to their users since they were the only game in town with free access to information.
- Internet services such as Google, Wikipedia, and many others now compete with libraries to be the preferred information source.
- To remain competitive, libraries much provide excellent service, easy to use tools, and reasons to use their services over those of their competitors.
- Libraries must pay greater attention to marketing.

Recommendation #4: Accurate budgeting often requires considering the cost of the next unit of service rather than the average cost of a unit of service.

- The average cost of a unit of service contains fixed costs that do not increase when offering another unit of the service.
- Offering more units or cutting units of a service does not have as great an effect upon the budget as might be expected from the average unit cost of the service.
- Reassigning fixed costs to another area of the library reduces the savings from any cuts.

Recommendation #5: A rough estimate of costs may often be all that is needed to make a budget decision.

- A rough estimate of costs is good enough in many situations to make a budget decision.
- A rough estimate may not always be accurate enough to make this decision..
- A detailed and accurate analysis of costs should replace the rough budget if the project or service moves forward.

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