Profit & Loss / Profitability & Liability
How Books Make (or Don't Make) Money

The Mass Market Original Complete Failure

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anna@annagenoese.com
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Many thanks to my editors on this article,
Patrick Nielsen Hayden and Heather Brady.
Any lingering errors are mine, not theirs.

Disclaimer:
This is a very blunt look at what happens to books. You might even call it slightly cynical. However, it should give you a very basic idea of how numbers work in the mass market publishing industry.

NB 02/2011: This article is quite out of date. Many things have changed in the publishing industry since 2006, starting with the boom of e-books! However, this article still has quite a bit of relevant information, and does an excellent job of explaining the way P&Ls work in the mass market publishing industry. I hope readers of this article continue to find it helpful.

A P&L is done a couple of different times. The first time is when we are estimating what we think we will spend on a book versus what we think we will make. If we buy the book, P&Ls are done throughout the book's life.

P&L usually stands for *Profitability & Liability* or *Profit & Loss*.

In order to buy a book at Tor, we have to fill out a P&L to make sure that the book will be profitable.

We do something called an **operating contribution P&L**. These P&Ls do not incorporate **people costs**—the time of people on staff, etc. The only people costs these P&Ls incorporate are freelance costs that are applied directly to the book.

Most of the time, this has nothing to do with math. Most of the time, a P&L is about figuring out which numbers to plug into a spreadsheet.

While our spreadsheet is 100% proprietary, I am going to give you a basic rundown of the things that we include in our P&L. *Every* company includes this stuff in their P&L.

We are going to do a fake P&Ls. *This is totally made up, but the numbers are real.* For the sake of argument, we are going to make a P&L for a mass market original, and, *for the sake of argument*, the P&L will be a *negative* P&L.

This book is a mass market romance novel called *Crichton is an Idiot* by a brand new author named Aeryn Sun. She doesn't know anyone, and no one's heard of her. You, her loving and caring editor, call in every single favor you've got, but no one has time. You do not take this as a bad sign that no one really likes the book at all, but you take everyone at their word. (This is your mistake. Although, of course, you've already bought the book—there's not much you can do at this point.) Your closest friend, an author who sometimes hits the Waldenbooks Top 20 Romance List, gives Aeryn a pity blurb.

"*Crichton is an Idiot* is a romp through a crazy alternate reality!"
—nationally bestselling author Buffy Summers

At the meetings, people shake their heads and sigh, but you are an obnoxious editor who loves your book. You bother people enough until your publisher gives you a full page 4/c (four color—aka full color) ad in *Romantic Times BookClub Magazine*, and puts four other small

books in the ad, so the price gets split. You bug more people, and you get 4/c bound galleys and a mailing to a couple of independent bookstores *and* a bookmark for the author to hand out.

The publisher tells you to get some in-house reads, because she isn't sure this is a wise use of resources—without blurbs, you're going to have a hard time. Plus, you're on your *second* cover—the art department just can't get it right. You spent $4,500 hiring an artist. Now the art director is working on the cover himself, using stock art. You still have to pay for stock art—it costs $1,400.

Barnes and Noble likes the cover—they take 2,000, which is 1,000 more than they'd take if they hated the cover.

Waldenbooks hates the cover and is nervous that there are no blurbs—they take 1,200.

Borders hates the cover, doesn't like that there are no blurbs, and, by the way, they are *not* convinced that *yet another* alternate reality romp is going to sell. They take 600.

The independent bookstores take about 600, too, for their own reasons, and the libraries take 900. Amazon takes 100.

WalMart doesn't like the title, Target is trying to push trade paperbacks, K-Mart has cut their book stock back by 50% and is stocking more magazines, Sam's Club votes with WalMart, *and*, because life doesn't suck *enough*, it turns out that Harlequin is doing some kind of special thing with Nora Roberts's backlist that month, so you can't get anything into the freaking drugstores and grocery stores.

Your **laydown** (the number of books you are going to ship for outlets to put on shelves) is 25,400. Your publisher compares numbers and decides it's slightly cheaper to print 35,000 copies, and that way if it's a sleeper hit, you've got some extra in the warehouse.

It costs money to print books. You have to pay for paper, printing, and binding—**PP&B**. You have to pay for copyediting, typesetting, proofreading, design, shipping (also called "delivery," also called "fulfillment"). Special note on freight charges: some publishing companies don't pay them. We've only just started to. I unfortunately can't give you more information than that, because I don't have it.

You have to pay for any marketing—of course, this poor book won't be getting any marketing except its bound galley mailing.

The PP&B is different depending on how long the book is and how many copies you're printing. It *also* includes the cost of printing the cover, so it changes depending on the cover's

special effects. Spot gloss, embossing, debossing, foil, print over foil—it's all special effects and it costs extra. A cover that is printed with an entirely glossy finish does not cost extra. A cover printed with an entirely matte finish does not cost extra. Embossing and foiling type on a cover can cost up to 25 cents extra *per copy*.

For a 320 page book with no effects on the cover, PP&B for 35,000 books costs $19,295.

Not included in the PPB is the manufacturing cost—fixed cost to keep the lights on in the factory, pay the workers, move the machines. This is covered under "typesetting and design" though.

Here is a grid:

Art	$5,900
Printing covers for marketing use (kits, etc.)	$4,500
Typesetting & design	$2,700
Copyediting	$1,000
Proofreading	$405
PP&B	$19,295
Ad/promo (bookmarks, ads)	$1,900
Galleys	$300

Add it up. Your total cost on this book is $36,000. In USD, yes.

(Those of you playing at home should keep track of these numbers with a pen and a piece of paper, because otherwise you may get confused.)

Now—sorry, more math—the book's cover price is $6.99. The author gets 8% of that as her royalty—$.5592. Set that aside—we're not going to talk about it again for a while.

The big bookselling outlet corporations have to "buy" the book from us. They get a discount that varies wildly, but the average is about 40% off the cover price, so let's say that the bookselling outlet corporations (aka "the trade", which is also sometimes known in this essay

and in casual meetings as "direct"—any place that specializes in books and also sometimes coffee) "pay" us $4.19 per book.

This is not real money. They don't actually give us money until well after the book is on the shelves. This is common in publishing—no one pays until they have to! For anything! Ever! Not until we submit an invoice threatening lawsuits, or whatever. Someone else can tell you about that, since I know pretty much nothing.

Also, a small note (jumping ahead a little)—mass market paperbacks that don't sell used to get **stripped** and **pulped**—their covers torn off and the insides made into goo. Now, or so I am told, the whole book is destroyed. Usually, by the time this happens, the bookseller has already paid for the book. So the bookseller returns an affidavit (formerly known as "the book's cover") to the publisher's warehouse, and receives a credit, good for use on any other books, instead of paying with cash, and the book is counted as a "return"—even though it doesn't get returned and it can't be shipped out again. This doesn't happen to hardcovers.

Pause. **Coop**. Pronounced co-op, because it is "co-operational advertising" but spelled coop because we are too lazy for hyphens. This is a word you will never hear us talk about or see anywhere because it is not really any of your particular business. But. Coop is a pool of money that all bookselling outlets (the trade and others) have. It is sort of extra, on top of their discount, based on *how many books published by us they sold last year. Total.* It is not per book.

All bookselling outlets get to decide what they use this money for. Then they tell us and we bargain with them. If Your Mom's National Chain Bookstore takes 10,000 copies of *The Autobiography of Dominar Rygel the 16th*, and spends five cents out of coop per book (that seems like a lot, but it's actually not) to promote the book within particular store locations—well, firstly, that is five cents that isn't being spent on *Crichton is an Idiot* by Aeryn Sun, and, secondly, it means the book will probably get front of store placement *or* they will order a "standup" in which they will place sixteen copies of the book in a prominent place in the store.

We say, okay, if you're going to do that, how about we give you an extra two cents to spend on advertising this book we really love, *Crichton is an Idiot* by a brand new author we think will explode!

Your Mom's National Chain Bookstore says, Feh. But we'll take one cent per book we take (which, as we know, is about 600 copies or whatever), and use that $6 to put a one-inch advertisement in our newsletter.

Deal!

This is not always the same thing as the, for example, South Dakota City location of Your Mom's National Chain Bookstore, which gets a yearly/monthly/whatever discretionary advertising fund from Your Mom's National Chain Bookstore's corporate headquarters. They might decide to use their discretionary advertising fund to put out a special newsletter, hold a special book club—whatever. We don't get to decide what they do. (But if they have a book club, we'll probably send their store manager a copy of a bound galley of some book we want to do extra promoting for, so maybe their book club will read that particular book.)

Then there is **incremental coop**, which is *extra* money that we give to the bookselling outlets. We say, well, if you're willing to spend five cents on *The Autobiography of Dominar Rygel the 16th*, how about we give you an *extra* five cents per book, to be used specifically for direct-to-consumer advertising? Your Mom's National Chain Bookstore says: yes, extra money, good, excellent, deal.

Note that *every single bookselling outlet corporation* must be offered the incremental coop. If we offer it to B&N, we also offer it to Your Mom's National Chain Bookstore. It has to do with monopoly laws, I think. Don't quote me on that. But if you are offering B&N an extra five cents per book, you have to offer the same thing to Sam's Club. That doesn't mean Sam's Club will take it, though—they might not plan to take a large amount of *The Autobiography of Dominar Rygel the 16th* at all, because they are too busy focusing on some book from Avon or Del Rey or something.

But it does mean that we need to have that money for them, just in case. There ain't no bluffing in this game, folks.

An additional thing to know about coop is that it is also not real money—and it usually translates into an extra discount, rather than a check being handed over. So instead of paying $4.16 for a book, the bookselling outlet gets five cents of coop and pays $4.11. You dig?

Back to discounting. The bookselling outlet corporations that are not direct (remember? Those are bookselling outlets that specialize in books and also sometimes coffee) usually get a discount of about *sixty* percent. Why? Well, partially because they don't care about books. They just don't. Books are like toilet paper to a Butson's grocery store. Books are stock to be moved to consumers. Toilet Paper X sells better than Toilet Paper Y, therefore Butson's stocks more of X.

So we need to persuade them a little to take the books, make the deal sweeter.

Another reason is that paperback books are sold like magazines. You might think this is stupid. It is not. Patrick Nielsen Hayden explains why very plainly:

> Very simply, there are two kinds of books: ***trade*** and ***mass-market***. The distinction is not actually one of binding or trim size; it's one of ***distribution terms***.
>
> Unsold trade books are generally returned to the publisher's warehouse whole. Unsold mass-market books are usually stripped and their covers returned—or, increasingly commonly, the books are pulped entire, followed by an affidavit attesting that this has happened.
>
> Most trade books are hardcovers and "trade paperbacks"; most mass-market books are rack-sized paperbacks, but there are exceptions in all directions.
>
> Cheap paperback books have existed for centuries. The modern American "paperback revolution", beginning in the 1940s, was driven not by the invention of inexpensive softcovers (which already existed) but the invention of the mass-market paperback distribution model. The sequence of events went roughly like this:
>
> *[1890 through 1941:]*
>
> WOULD-BE PAPERBACK PIONEERS: "Stock our 25-cent paperbacks, please!"
>
> BOOKSTORES: "Nothing doing. Two or three of them take up the same shelf space we could use for a $2.95 hardcover. Begone with you!"
>
> *[Exeunt omnes, pursued by World War II.]*
>
> WOULD-BE PAPERBACK PIONEERS: "Hey, it's the postwar period! Here's an idea: forget the damn bookstores, let's sell our 25-cent paperbacks through the same system of jobbers and wholesalers that distributes magazines and newspapers to every newsstand, drugstore, bus station, and grocery store in America."
>
> MAGAZINE JOBBERS AND WHOLESALERS: "Okay, Mac, but you gotta make 'em strippable, just like COLLIER'S and LOOK. Also, make your lists monthly. None of this carriage-trade 'season' stuff for us burly, down-to-earth practical men."
>
> PAPERBACK PIONEERS: "No problem. Here, have a couple of dozen titles."
>
> AMERICAN PUBLIC: "OMG! SQUEE!"
>
> PAPERBACK PIONEERS: "Have a bunch more!"
>
> AMERICAN PUBLIC: "SQUEE SQUEE SQUEE!"
>
> BOOKSTORES: "Hey, wait! Can we stock these too after all?"

And yet another reason is: the more books we can print, the cheaper it is to print them. It's too bad we're only printing 35,000 copies of *Crichton is an Idiot*, because if we were printing 100,000 copies (like we are of *The Autobiography of Dominar Rygel the 16th*), then instead of paying $.5513 per book for the PP&B, we'd be paying $.3944, and that would be with *both foiling and embossing* on the cover, instead of just a plain matte finish.

Yeah, no kidding.

What did we say? Direct is taking 5400. 5400 x $4.19 = $22,626. Between themselves, the other bookselling outlets are taking 20,000, and they're all getting (to make it easy) a 60% discount, which means they're paying $2.796 per book. 20,000 x $2.796 = $55,920.

This book starts out making us $78,546. That is the gross profit.

This book starts out making the author $14,203.68 in royalties.

Minus cost, we've made $28,372.32. (At the moment, we *are* factoring in the author's royalties, but we *are not* factoring in freight, or the cost of warehousing the 9,600 books that don't get shipped.)

Phew. Tired of math yet? Too bad, there's more. This is still a P&L—what we've gone through is the P&L that we do when the book first prints and ships. (Mostly we do them in our heads, but, goodness, the number of "printed but not sold" P&Ls I did when I first started the paranormal romance list is huge. Well, like, twenty or so. But that's a lot of math.)

The average mass market paperback—*average*—sells one in three copies. *Crichton is an Idiot* gets one good review (*Romantic Times BookClub Magazine* says, "Aeryn Sun is up and coming—check this one out for lots of hot sex and alpha-hero snarling.") and one bad review (*Booklist* says, "This book has no structure, no character development, and the romance is actually the two main characters beating each other up and then having violent sex, leaving nothing to the reader's imagination.")

Out of 25,400, *Crichton is an Idiot* sells 8,400.

On the initial profitability and liability statement, the excited, committed editor theorized it would print at least 50,000 and sell at least 30,000, and paid the author an advance of $12,500. She didn't want to go all the way up to $16,000, just in case she was *slightly* off the mark—and normally a first time author would get something like $5,000 (just in case! and also leaving room to grow!), but this was out with four other houses, and the agent had a $10,000 offer from NAL, and, damn it all, the editor really wanted it, so her publisher let her pay an exorbitant amount.

Oops.

The author makes $4,697.28 in royalties. This means that she does not make back her advance. You may think this means she owes the publishing company $7802.72. You would be wrong! It's in the contract—she doesn't have to pay that back. However, she can't get another book deal to save her life. (A couple of years later, though, she starts writing Blaze novels under a pseud., hits a bunch of in-store bestseller lists, and revitalizes her career.)

Out of the 8,400, 2,500 copies sold through direct, making $10,475, and the rest (5,900) sell through other outlets, making $16,496.40.

$26,971.40 is the net total this book earns for the publishing company. You have lost your company:

$12,500 +

$36,000 -

$26,971.40 =

$21,528.60

And this is totally normal. This is an average book! Okay, it's a slightly cynical look at the average mass original, but you won't find too many editors who *don't* have a couple of these on their list.

Direct questions to **anna@annagenoese.com**, or visit h**ttp://alg.livejournal.com/84032.html** to read the comments and conversation.