Understanding the world of book sales

Writing is a craft, but publishing is a business – and a highly competitive one. A lot of aspiring authors don't understand how books are moved through the supply chain, and how book profits are divided among the key players. Here are a few things about selling books that you might want to know.

Stiff Competition

According to R.R. Bowker's *BookWire*, major publishing firms released 61,126 new titles or editions in the year 2008 (the last year for which detailed and complete data was available when this was written), while midsize and independent publishers released another 214,106 titles. That same year, self-publishers added 285,294 new titles – meaning ***more than a half-million*** new books hit the market in one year! Using historical data from Nielson's *Bookscan*, it is projected that only 10 percent of those new books will ever sell more than 500 copies.

Mainstream releases (that are widely available in bookstores) do a *little* better – about one in every seven of those (14 percent) makes a profit for the publisher. Granted, that profit is often huge (which is how major publishers stay in business), but six out of every seven new releases *loses money*. Can *you* afford to publish six books that lose money?

Of course, the competition that a new book faces is not limited to the half-million other new books that are released in the same year. For example, the top-selling book of 2008 (Stephenie Meyer's *Twilight*) was first released in 2005. Of all the new titles actually released in 2008, only nine sold a million copies or more within the first year (according to *Publisher's Weekly*), and only 41 surpassed the 100,000 mark. In most genres, a new release that sells 7,500 copies in the first year is considered a "success" in the publishing industry – a fact that surprises a lot of aspiring authors.

A Traditional Publishing Scenario

Another surprise to new authors is the detail of how books traditionally move through the supply chain, and how the profits from the sale of a book are determined and broken down. Consider the following example for a "typical" 6"x9" trade quality paperback, published by a traditional publisher, and sold through normal bookstore channels with a list price of $13.95 in the U.S.:

- At least six months prior to release, the (traditional) publisher begins promoting the book to suppliers (distributors, wholesalers, merchandisers, book clubs, etc.) with a *standard return policy* (i.e., an agreement to take back unsold books from retailers) and a *trade discount* of 55 percent (i.e., a cost of $7.67 per copy they order). The publisher spends $5,000 on advance promotion like this, and takes orders from these suppliers prior to the book's release date.
- During this time, the publisher spends $14,000 completing the pre-production work for the book (editing, interior and cover design, layout, file prep, etc.), and then (based on the orders received) prints 20,000 copies of the book at a cost of $26,000 (about $1.30 per copy).
- The 20,000 books are shipped to supplier's warehouses and distribution centers throughout the country at a cost to the publisher of $3,000.
- Suppliers distribute the 20,000 copies to retail stores across the country with a *wholesale discount* of 70 percent (i.e., a cost of $9.77 per copy) with the *standard policy to accept returns* on unsold copies.
- Retailers offer the book to customers for 10 percent off the list/cover price (i.e., a sale price of $12.56).

Now, let's look at what happens to those 20,000 books:

- During the six months after the book's release, 12,000 copies are sold (making it relatively successful by book publishing standards – certainly enough so to break into the top 200 in sales rankings). Retailers make $2.79 in gross profit from each book they sell. From that (and from the sale of other books), they must pay their operating expenses (store lease, insurance, advertising, utilities, employee wages and benefits, etc.). Deducting a pro rata amount for those expenses, a bookstore's net profit on the sale of this book is about $0.38 (thirty-eight cents) per copy.

- After six months (with new books coming out all the time), sales for this book have trailed off – so retailers begin returning the 8,000 unsold copies to suppliers per the standard agreement. (Note: a 40 percent return rate is about average, as American retailers always want more of a given product to place on shelves than they think they can ever sell.)
- Suppliers, in turn, send the 8,000 books back to the publisher for credit. So in the end, the various suppliers involved make a total profit of $31,500 (15,000 books sold x $2.10 wholesale profit per book), from which they must pay their operating expenses (warehouses, transportation, insurance, employee wages and benefits, etc.). Deducting a pro rata share of these expenses, the supplier's net profit on this book is about $0.52 (fifty-two cents) per copy.
- The suppliers return those 8,000 unsold books they received from retailers to the publisher for credit, so the publisher must accept those returns and issue a refund.

In the beginning, the publisher spends $48,000 to produce, promote, and deliver the book to wholesale suppliers – and receives a gross revenue (before returns) of $153,400 (20,000 x $7.67). This leaves a gross profit of $105,400. $61,350 is refunded to suppliers when the 8,000 books are returned, leaving $44,050.

From this, the publisher pays the first-time author a fairly standard 8 percent (of list price) royalty for each copy sold, or $13,440 (12,000 books x $1.12). *Note: Bestselling authors may eventually receive as much as 12 to 15 percent.* The publisher is left with a net profit of $30,610, from which it must pay its operating expenses (fancy offices, employee wages, etc.). You can do the algebra and see that if this particular book had sold any fewer than 7,328 copies, the publisher would have *lost money* on it (this is why it is so difficult for a new author to get a traditional book deal, and why the royalty percentages are considerably lower if they do – reps and agents don't keep their jobs very long if they bring in new authors who lose money for the company . . . so they tend to "play it safe").

By the way, the author of the book in this example pays the agent who landed the book deal 15 percent (or $2,016) of his/her royalty, and (with a first time author) would also be required to pay a publicist 20 percent (or $2,688) for coordinating media interviews, prompting reviewers, and so on – meaning the author would clear about $8,736 (pre-tax) on a title that by industry standards is considered a successful first release. Of course, if the book sells 100,000 copies (rather than 12,000), the author will receive about $112,000 in royalties during that six-month period. Not bad at all . . . but *do you remember how many books released in 2008 sold 100,000 within the first 12 months?* That's right, only 41 out of more than a half-million.

To make a profit as a self-publishing author, you have to do *almost everything* differently than the way a traditional publisher does it. Consider these approaches.

Two Self-Publishing Scenarios

Now, let's consider a couple of *self-publishing* scenarios for the same book (i.e., 6x9, perfect-bound paperback, 346 pages, list priced at $13.95 for the U.S. market) using the Amazon.com print-on-demand subsidiary, CreateSpace.

As with a traditionally published book, there is work required to edit the book, design and lay out the interior pages, design the cover, prepare print-ready files, develop and produce marketing materials, and distribute promotional pieces.

In the first of these two scenarios, let's assume that the self-publishing author is capable of doing all of this work him/herself.

- The author/publisher sets up an account to have the book printed on-demand by CreateSpace and sold through on-line sales channels including Amazon.com. The initial set-up cost for this (called ProPlan) is $39.
- The author/publisher uploads the print-ready files and orders a proof copy for review. The cost for this is about $10 (including shipping to a U.S. address). Upon approval of the proof, the book is released.
- The author/publisher wants to sell the book in-person and via his/her website, and orders copies from CreateSpace for that purpose at a cost of $5.00 each. (Yes, it costs a lot more per copy to print a book on-demand using a digital press than it does to print in large volumes on an offset press like a

traditional publisher. However, instead of having to print 20,000 copies, you can print whatever number you plan to sell – even as few as one).

- The author/publisher's gross profit on each sale is $8.95. Even if we subtract a reasonable amount for shipping costs, promotional expenses, and sales tax on each sale, the author/publisher should clear $7.50 on each book he/she sells personally.
- The book is also listed (free) on a CreateSpace eStore (with each sale netting the author/publisher $6.16), on Amazon.com (with each sale netting the author/publisher $3.37), and (if desired) is made available to a major book wholesaler (Ingram) so it can be ordered by other retailers (with each sale netting the author/publisher $0.58).

The disadvantage of this approach is that it's very hard to sell 12,000 books this way. The good news is that you don't have to. The author/publisher has only invested about $50 in the project, so he/she only needs to sell 7 books to break even. If the author/publisher is able sell 1,200 books in-person or via his/her website, he/she will make $9,000 from that (with no agent or publicist to pay). *That's more than the author made from selling ten times as many books (12,000) in the traditional publishing scenario!* If the author sells 2,500 books on Amazon, he/she makes another $8,425. Can you see why self-publishing has become so popular?

Now, let's consider the situation for an author who cannot (or doesn't want to) do all the work required to edit the book, design and lay out the interior pages, design the cover, prepare print-ready files, develop and produce marketing materials, and distribute promotional pieces. One option would be to buy a package (like the "Total Design Freedom Marketing" Pro package from CreateSpace) which for a book this length would cost approximately $6,200. Obviously, the author now has to sell more books (about 830) to break-even and start making money. 830 books isn't really very many, yet given that 90 percent of self-published books never even sell 500 copies, the author may consider this to be too large an investment for a first book.

That's where Lighthouse24 comes in. We encourage you to do every task you can do (and want to do) yourself, and use our services only when and where you need them. Visit our website and examine the pricing for services we've offered to other CreateSpace members over the past year. We can do a professional quality job *and* we can save you money. Not only that, we offer fast turnaround (so you can start selling your book weeks sooner). In most cases, the profits from the first batch of books you sell will more than pay for the cost of any services we provide.

Brick-and-Mortar Retailers

You may dream of seeing your book on the shelves of bookstore chains nationwide, and perhaps even in the book sections at Wal-Mart, Target, Kroger, or Piggly Wiggly . . . but if you're smart, you'll forget all about that – for now, at least. That is, unless you can afford to print and distribute a large quantity of books up-front like a traditional publisher, and can afford to take back all the unsold copies (which any national merchandiser or retailer will demand).

That's not to say you can't make arrangements with local bookstores or specialty shops to carry your book. You can buy your print-on-demand book at cost, supply it to a local store yourself, and have enough profit margin for both you and the store to make money when it sells. You may even be able to cover the cost if the store returns a few unsold copies (however, the fact you're able to service them yourself should keep this to a minimum).

Until you've shown that there is *demand* for your book in a given marketplace, there's no point in spending a lot of money to try to *supply* that marketplace. However, once you've attained success in a few locations, you have the proof of success you need to approach a few more . . . and then a few more. A self-publishing author is not constrained to a six-month retail cycle like most traditionally published books. A good self-published book can be effectively launched and promoted into new markets for several years after its date of first publication.