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# Math of Publishing Meets the E-Book

By Motoko Rich, New York Times, February 28, 2010

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In the emerging world of e-books, many consumers assume it is only logical that publishers are saving vast amounts by not having to print or distribute paper books, leaving room to pass along those savings to their customers.

Publishers largely agree, which is why in negotiations with Apple, five of the six largest publishers of trade books have said they would price most digital editions of new fiction and nonfiction books from \$12.99 to \$14.99 on the forthcoming iPad tablet — significantly lower than the average \$26 price for a hardcover book.

But publishers also say consumers exaggerate the savings and have developed unrealistic expectations about how low the prices of e-books can go. Yes, they say, printing costs may vanish, but a raft of expenses that apply to all books, like overhead, marketing and royalties, are still in effect.

All of which raises the question: Just how much does it actually cost to produce a printed book versus a digital one?

## Hardcover

Publishers differ on how they account for various costs, but a composite, and necessarily simplified, picture might look like this, according to interviews with executives at several major houses:

On a typical hardcover, the publisher sets a suggested retail price. Let's say it is \$26. The bookseller will generally pay the publisher \$13. Out of that gross revenue, the publisher pays about \$3.25 to print, store and ship the book, including unsold copies returned to the publisher by booksellers.

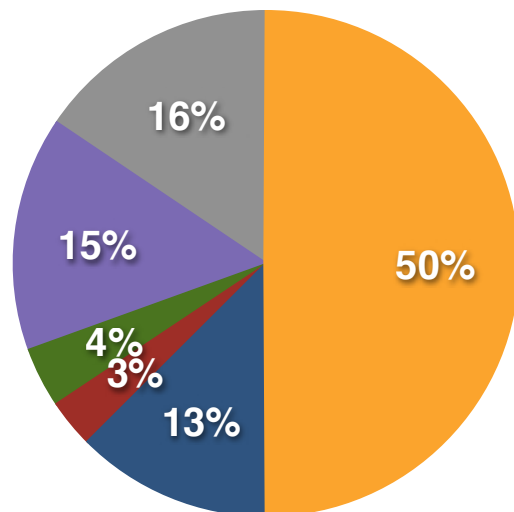
For cover design, typesetting and copy-editing, the publisher pays about 80 cents. Marketing costs average around \$1 but may go higher or lower depending on the title. Most of these costs will decline on a per-unit basis as a book sells more copies.

Let's not forget the author, who is generally paid a 15 percent royalty on the hardcover price, which on a \$26 book works out to \$3.90. For big best-selling authors — and even occasionally first-time writers whose publishers have taken a risk — the author's advance may be so large that the author effectively gets a higher slice of the gross revenue. Publishers generally assume they will write off a

portion of many authors' advances because they are not earned back in sales.

Without accounting for such write-offs, the publisher is left with \$4.05, out of which it must pay overhead for editors, cover art designers, office space and electricity before taking a profit.

- Retailer
- Print, store, ship
- Design, Typesetting
- Marketing
- Royalty
- Overhead, profit



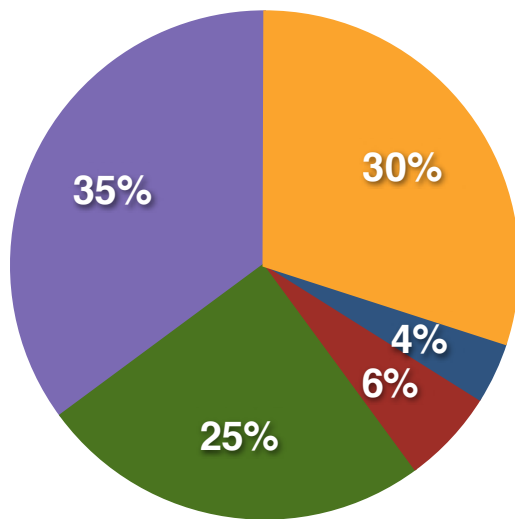
## E-Book

Now let's look at an e-book. Under the agreements with Apple, the publishers will set the consumer price and the retailer will act as an agent, earning a 30 percent commission on each sale. So on a \$12.99 e-book, the publisher takes in \$9.09. Out of that gross revenue, the publisher pays about 50 cents to convert the text to a digital file, typeset it in digital form and copy-edit it. Marketing is about 78 cents.

The author's royalty — a subject of fierce debate between literary agents and publishing executives — is calculated among some of the large trade publishers as 25 percent of the gross revenue, while others are calculating it off the consumer price. So on a \$12.99 e-book, the royalty could be anywhere from \$2.27 to \$3.25.

All that leaves the publisher with something ranging from \$4.56 to \$5.54, before paying overhead costs or writing off unearned advances.

- Retailer
- Marketing
- Overhead, profit
- Design, Typeset
- Royalty



At a glance, it appears the e-book is more profitable. But publishers point out that e-books still represent a small sliver of total sales, from 3 to 5 percent. If e-book sales start to replace some hardcover sales, the publishers say, they will still have many of the fixed costs associated with print editions, like warehouse space, but they will be spread among fewer print copies.

## Other Considerations

Moreover, in the current print model, publishers can recoup many of their costs, and start to make higher profits, on paperback editions. If publishers start a new e-book's life at a price similar to that of a paperback book, and reduce the price later, it may be more difficult to cover costs and support new authors.

Another reason publishers want to avoid lower e-book prices is that print booksellers like Barnes & Noble, Borders and independents across the country would be unable to compete. As more consumers buy electronic readers and become comfortable with reading digitally, if the e-books are priced much lower than the print edi-

tions, no one but the aficionados and collectors will want to buy paper books.

"If you want bookstores to stay alive, then you want to slow down this movement to e-books," said Mike Shatzkin, chief executive of the Idea Logical Company, a consultant to publishers. "The simplest way to slow down e-books is not to make them too cheap."

In many ways, the \$12.99-\$14.99 price bracket for e-books is an experiment. With it, the publishers seem to have beaten back, for the moment, the \$9.99 price that Amazon has offered for Kindle versions of most new releases and best sellers, but it remains to be seen whether consumers will tolerate that.

Music prices, for example, have come under significant pressure in the digital age: from 2000 to 2009, the price of audio discs, tapes and other media, which includes digitized music, fell a little more than 3 percent, according to the federal Consumer Price Index. Prices of so-called recreational books, meanwhile, have increased just over 6 percent during that same period.

Certainly, publishers argue that it would be difficult to sustain a vibrant business on much lower prices. Margins would be squeezed, and it would become more difficult to nurture new authors. "Most of the time these people are probably not going to make huge sums of money the first time they publish," said Carolyn Reidy, chief executive of Simon & Schuster.

In fact, the industry is based on the understanding that as much as 70 percent of the books published will make little or no money at all for the publisher once costs are paid.

Some of these books are by writers who are experimenting with form or genre, or those who just do not have recognizable names. "You're less apt to take a chance on an important first novel if you don't have the profit margin on the volume of the big books," said Lindy Hess, director of the Columbia Publishing Course, a program that trains young aspirants for jobs in the publishing industry. "The truth about this business is that, with rare exceptions, nobody makes a great deal of money."

For many authors, pricing is a thicket of confusion. "None of us know what books cost. None of us know what kind of profits hardcover or paperback publishers make," said Anne Rice, the author of "Interview With a Vampire" and the "Songs of the Seraphim" series.

She said she did not know whether publishers had struck the right price for e-books. "For all I know, a million books at \$9.99 might be great for an author," Ms. Rice said. "The only thing I think is a mistake is people trying to hold back e-books or Kindle and trying to head off this revolution by building a dam. It's not going to work."