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E-Books and Author Payments: The Affect of Digital Publishing on Author Royalties

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Missy Lacock
Graduate Research Paper
May 1, 2015

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The Affect of Digital Publishing on Author Royalties

Research question: “How have e-books affected author payments?”

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Introduction

From digital rights management to retail costs, controversy has always accompanied e-books—although it hasn't even been a decade since Amazon first released the Kindle. This discussion, however, explores another question: *How have e-books affected author payments?*

The most significant change in author payments has been e-book royalty rates. While the standard rates are seven and a half percent for trade paperback books and fifteen percent for hardcover books, royalty rates for e-books are twenty-five percent (Deahl, "Checking In")—the same today as they were when e-books first flooded the market in 2009 (Shatzkin, "Aside from the Publishers"). While royalty rates are higher for e-books than their printed counterparts, debates about digital royalty rates continue to surface at publishing conferences (Deahl, "Checking In").

The Debate: Opponents

Authors and agents are leading the call for higher e-book royalties. Idea Logical Company and Market Partners International conducted a 2015 survey of more than 100 U.S. literary agents about e-book royalties ("Agents and E-Books Exclusive"). More than

half of the survey respondents reported that a fifty percent or higher rate would be a “fair” e-book royalty, and more than a third said they negotiated e-book royalties for more than the standard twenty-five percent (including escalators and bonuses).

The results are striking compared to the Digital Publishing Trends Survey conducted by the Copyright Agency only a few years earlier in 2011. Barely sixteen percent of respondents agreed the e-book royalty range should be between forty-one and fifty percent. The 2015 survey demonstrates a sharp upswing in advocates of higher e-book royalty rates and indicates a growing opposition to the current industry standard of twenty-five percent (“Copyright Agency Releases”).

Advocates calling for higher e-book royalties usually point out the low manufacturing costs of digital publishing and propose a fifty percent—double the current standard—would be a fair royalty rate (“Authors Guild to Publishers”). *Publishers Weekly* explored the opposition:

Given their perceived low cost of production, many in the business—from agents to authors—have railed against publishers’ claims that e-books, like print books, cost money to make, manufacture, and distribute... The popular perception about e-books is that they’re solely a profit-driving force for publishers. (Deahl, “Checking In”).

Authors and agents also point out that e-books are less than half the retail prices of hardcover print books, reducing the take-home author payment even further (Chmielewski, “The Average Author’s Salary”).

The Authors Guild, an organization that advocates for authors rights, has been one of the most fervent campaigners for higher e-book royalty rates:

[A twenty-five percent royalty rate] is contrary to longstanding tradition in trade book publishing, in which authors and publishers effectively split the net proceeds of book sales (that's how the industry arrived at the standard hardcover royalty rate of fifteen percent of list price). Among the ills of this radical pay cut is the distorting effect it has on publishers' incentives: publishers generally do significantly better on e-book sales than they do on hardcover sales. Authors, on the other hand, always do worse ("E-Book Royalty Math").

On its blog, the Authors Guild published three examples of royalty comparisons in 2011: *The Help*, by Kathryn Stockett, *Hell's Corner*, by David Baldacci, and *Unbroken*, by Laura Hillenbrand ("E-Book Royalty Math").

The Help

- author's standard royalty: \$3.75 hardcover; \$2.28 e-book
- author's e-loss: minus thirty-nine percent
- publisher's margin: \$4.75 hardcover; \$6.32 e-book
- publisher's e-gain: plus thirty-three percent

Hell's Corner

- author's standard royalty: \$4.20 hardcover; \$2.63 e-book
- author's e-loss: minus thirty-seven percent
- publisher's margin: \$5.80 hardcover; \$7.37 e-book
- publisher's e-gain: plus twenty-seven percent

Unbroken

- author's standard royalty: \$4.05 hardcover; \$3.38 e-book.
- author's e-loss: minus seventeen percent
- publisher's margin: \$5.45 hardcover; \$9.62 e-book.
- publisher's e-gain: plus seventy-seven percent

The Authors Guild used the data to demonstrate how e-books are profitable to publishers, while authors always suffer a loss despite the royalty rate of twenty-five percent. For example, the publisher grosses seventy percent of the retail price of *The Help*, and with an e-book price tag of \$13, that's a gross total of \$9.10. The author's royalty, however, is only twenty-five percent of the publisher receipts, or \$2.28. That means the publisher nets \$6.32 (\$9.10 minus royalties and an encryption fee), while the author nets \$2.28. The Authors Guild maintains:

It certainly does wonders for cash flow: not only does the publisher net more, but the reduced royalty means that every time an e-book purchase displaces a hardcover purchase, the odds that the author's advance will earn out—and the publisher will have to cut a check for royalties—diminishes. In more ways than one, the author's e-loss is the publisher's e-gain (“E-Book Royalty Math”).

In the same vein but a different post, the Authors Guild claim royalty rates are irrelevant to authors who never earn out advances: “the current e-book royalty standard penalizes authors who exceed expectations while leaving untouched celebrities and big name writers whose sales don't merit their big advances” (“Publisher's Own Analysis”).

Authors and agents argue these developments in author payments sets up a new, unequal hierarchy in the author-publisher structure.

The Debate: Advocates

Others, however, take a different position. Mike Shatzkin, for example, presented data via *The Shatzkin Files* that revealed the other side of the e-book/print royalty debate, which the Authors Guild has ignored: paperback royalties. Shatzkin admits, “It is true that an author gets a much bigger royalty on a hardcover under the wholesale model than under the agency model,” but his data also demonstrated “that is not true for paperbacks:”

The author suffers a real shortfall in revenue for each copy sold in hardcover at the prevailing twenty-five percent royalty. However, the author makes more money on each e-book than they do on each trade paperback or mass-market paperback. The e-book royalty for a trade paperback equivalent is quite close in the two models, although wholesale still yields more. But in mass-market, the author actually gets significantly more under the agency model than they do under the wholesale model (Shatzkin, “The Royalty Math”).

In addition to a higher take-home from e-books than paperback print books, Shatzkin acknowledges the arguments about lower production costs for e-books. However, he still concludes the twenty-five e-book royalty rate is fair:

Looking at these numbers, one can see why publishers believe, at least on paperbacks, that the twenty-five percent royalty is more than fair. (The author is getting more per copy sold and the percentage of the total margin they're getting is as good or better than for a paper edition.) While we're in a time where digitizing for epub is an extra step, not a simple alternative output of an XML-based pre-press process, the e-book seems freighted with extra costs. But in the longer run, that won't be true. E-books should put less strain on overheads and require less of an organization to support them: no warehouse, no cash tied up in inventory, no need to monitor stock in the warehouse and in the supply chain. Looking at these numbers it is easy to see why publishers are fighting to hold the line on e-book royalties (Shatzin, "The Royalty Math").

Publishers themselves usually remain silent on the issue and refrain from joining the debate (Deahl, "Agents, Publishers, Others"), but the twenty-five percent royalty rate has stuck—and that may be answer enough.

Predictions

In the wealth of discussion on this topic, publishing professionals have offered many predictions. In 2011, *The Bookseller* reported agents anticipated escalated royalties in e-book contracts would become the standard payment practice: Agent Oliver Munson said, "I can't realistically envisage the much trumpeted twenty-five percent net receipts remaining the benchmark for much longer" (Williams, "Agents Press"). Four years later,

however, the twenty-five percent e-book royalty is still the benchmark, and escalated royalties, although gaining ground (especially with romance publishers), are hardly the norm.

Shatzkin had his own prediction at the dawn of e-readers in 2009:

So after several years of publishers driving down e-book royalties to the current Major League standards of fifteen percent of retail or twenty-five percent of net, we can expect to see the pendulum swing back to the author. Big authors will negotiate far higher e-book royalty rates; small authors will turn down small advances in favor of self-publishing as the e-book market grows (and the physical books, remember, can be delivered through a variety of POD self-publishing options) (Shatzkin, “Aside from the Publishers”).

While authors are still waiting for the “pendulum” to swing their ways, Shatzkin was correct that more authors would choose the self-publishing route. In fact, according to the latest Author Earnings Report, self-published authors account for a sizeable, record-breaking chunk of Amazon e-book sales:

- Thirty-three percent of all paid e-book unit sales on Amazon.com are indie self-published e-books.
- Twenty percent of all consumer dollars spent on e-books on Amazon.com are being spent on indie self-published e-books.
- Forty percent of all dollars earned by authors from e-books on Amazon.com are earned by indie self-published e-books.
- In mid-year 2014, indie-published authors as a cohort began taking home the lion’s share (forty percent) of all e-book author earnings generated on Amazon.com while authors published by all of the Big Five publishers

combined slipped into second place at thirty-five percent. (“January 2015 Author Earnings Report”)

Often authors select the self-publishing route because they stand to gain a much higher royalty rate, depending on their platforms of choice. Amazon, for example, offers seventy percent royalties—but only on titles with cover prices between \$2.99 and \$9.99; otherwise the royalty rate is thirty-five percent royalties (Whitehead, “Self-Published Authors”).

As *Publishers Weekly* pointed out, however, no “mass exodus” of the biggest authors to self publishing has happened, although Shatzkin isn’t the only industry professional to have predicted it. Instead, houses have managed to prevent their most important authors from jumping ship by offering increasingly larger advances (Deahl, “Checking In”).

Other predictions have also yet to come to pass. Paul Aiken, executive director for the Authors Guild, said at a 2010 *Publishers Weekly* panel that since the big houses are paying off the most powerful authors with advances, the status quo can only work for so long, and a fifty percent royalty rate on front list titles is “inevitable” (Deahl, “Agents, Publishers, Others”).

A year later, the Authors Guild predicted the following on its blog:

As the e-book market continues to grow, competitive pressures will almost certainly force publishers to share e-book proceeds fairly. Authors with clout simply won’t put up with junior partner status in an increasingly important market (“Agents and E-Books Exclusive”).

However, so far nothing has “forced” publishers to share e-book proceeds any differently than they ever have. The rate hasn’t budged from twenty-five percent since publishers first introduced it nearly a decade ago.

So where are we now? The 2015 agent survey conducted by the Idea Logical Company and Market Partners International revealed the same song, second verse: a whopping eighty percent of all respondents predicted there will be an increase from the twenty-five percent royalty rate during the next three years, and twenty-five percent believed it will “rise sharply” (“Agents and E-Books Exclusive”). Looking at the short history of e-books royalties and failed predictions, however, that twenty-five percent royalty rate will likely be a tough rule to break. One thing is certain, however: that number will always have its protesters.

The Publisher-Author Relationship

Since the e-book is still in its infancy and challenging every party to find their footing in this new e-territory, author payment changes are also affecting publishers; the complex relationship between houses and their authors just got even thornier with the introduction of the e-book.

The Authors Guild, for example, is a very active and vocal force supporting authors, and its commitment to increasing the royalty rate from twenty-five percent to fifty hasn’t waned. In a letter addressed to the Publisher’s Lunch Club, Authors Guild Executive Director Mary Rasenberger appealed to publishers to better their relationships with authors:

Publishers need authors because publishers still need quality works. And...most of our authors still rely on publishers...It's true, writing as a profession has always been a struggle, but for many it is now becoming impossible. Even if the midlist author is able to keep writing full-time, he or she lives check-to-check—without employee benefits or the security of a regular salary...[While] the standard e-book royalty of twenty-five percent of net receipt...might help publishers deflect losses from lower pricing, it is a step back for authors. And it is not reflective of publishing's traditional "joint venture" spirit, where authors and publishers effectively split the net proceeds of book sales. Songwriters, for instance, always get fifty percent of royalties from music publishers. Book authors should be treated the same ("Authors Guild to Publishers").

Right or wrong, this letter demonstrates the nature of the conflict and the passion behind it. What is most striking about author payments changes brought about by e-book, however, is the one-side nature of the debate. While publishers have largely remained silent since 2009, according to *Publishers Weekly* (Deahl, "Agents, Publishers, Others"), the objections against higher royalty rates are only growing. At the very least, publishers may want to consider how they handle the discussion regarding e-book royalty rates and enter the fray for the sake of preserving their author-publisher relationships.

Disgruntled author Nick Harkaway, for example, rallied other authors to protest the current royalty rates after News Corp revealed its higher e-book profits ("E-Book Royalty Debate"), which had similar results as the report released by the Author Guild

(comparative book examples provided above). Agents joined the protest as well, and agent Brian DeFiore said the report proved publishers' "savings on printing, binding, and distribution make up for the lower revenue from lower e-book prices...[a profit that comes] entirely off the backs of authors" ("E-Book Royalty Debate"). Indeed, the biggest issue of e-book author payments may be its implications for the relationship between publishers and authors and their representatives, as well as the industry's reputation.

Luckily, the 2015 survey conducted by Idea Logical Company and Market Partners International revealed that more than seventy-five percent of author representatives believe "the best situation is for the print and e-book publisher to be the same publisher—if authors are fairly compensated" ("Agents and E-books Exclusive"). The findings indicate a good working relationship is still possible between publishers and authors if they can agree on appropriate payment. However, current patterns and research indicate that striking an agreement and managing open communication may still be in the distant future.

Conclusion

The introduction of e-books has instituted a separate royalty rate that hasn't altered from the twenty-five percent that accompanied the first digital books on the market. With the new format, new tensions also launched and continue to grow between big players from both publisher and author aisles. Meanwhile, many expect and wait for a change that is slow to arrive.

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