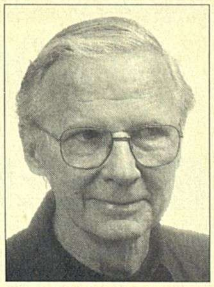
Long Live the King!

BY THOMAS McCORMACK



McCORMACK

Trade publishers are chronically round-shouldered with grim news about their industry, and, in keeping with the creative nature of their product, the news is usually imaginary. In 1975 I was told by a well-meaning mass market executive that I should get out of hardcover fiction because in five years there wasn't going to be any any more. In the mid-'80s I was advised that in five years there would be exactly and only seven trade publishers in America, all the independents being big-fished by mega-conglomerates. In 1992 I was counseled to stop selling Barnes & Noble because they would be going under within 150 days.

The news regularly comes from the very sources we would agree should be sneered at: rumors, uninformed and confused newspaper reports, anecdotal evidence that is sensational, dire and invented. But we don't sneer; we believe implicitly. We in publishing display two failings here: we lack skepticism, and we embrace pessimism. Beware of pessimism about the trade book business. It's misplaced. Which would be evident if only we were more skeptical about conventional "wisdom." Consider:

Today, in 1997, there are more independent publishers in America than ever before in history. Our first impression is that that can't be, because every month we read about another house being absorbed by one of the giants. But check the current *LMP*. Compare the number of listed U.S. publishers with the number in the 1987 annual, the 1977, the 1967. For decades now—and in every year throughout the '90s—the number of newborn houses has outpaced the very dearly departed.

In the '90s there are more titles, more fiction titles—and more *first* novels—being published than at any time in the past. Ask the *PW* Forecast staff—or any large library jobber—how the number of fiction galleys being submitted compares to that of earlier years.

No matter what you read in the papers, there are more trade books—hardcover and trade paperback—being sold these days. And this includes fiction. Between the 1930s and 1985, not a single hardcover novel sold a million copies. In 1985, *three* novels topped a million—Michener, Auel and Keillor. Every year in the '90s—the decade in which the rise of videos was to choke off the reading of novels—we see million-copy sellers, even multi-million. How many has Stephen King alone had? We've seen one title—*The Bridges of Madison County*—sell 5.5 million. Book club and mass units may be down from their peaks of years ago, but club units are actually on the rise again. In any case, the monetary fact is that publishers, authors and bookstores make exponentially more from hardcover retail than from clubs and mass paperbacks.

We also hear that publishers' devotion solely to bestsellers has killed "midlist" fiction, causing a decline in total unit sales that far outweighs any gain through bestsellers. It's typical of us in publishing to make such assertions without any effort to do the research and arithmetic that would discredit thoughtless convictions like this. You can't dial information, or Webster, or anyone in publishing or at the *New York Times* to find out what "midlist" "really" means, so let's just stipulate a definition: "Midlist" is any title that net sells 12,000 to 25,000 copies; call the average 15,000. (Stephen King isn't "midlist," and neither is a 4000-copy mystery or literary novel.) Then *Bridges* alone supplied the unit sales of 366 "midlist" titles. I can't name any year in which there was a *total* of 366 hardcover novels released that sold 15,000 copies, so the idea that *Bridges* alone killed 366 feels preposterous.

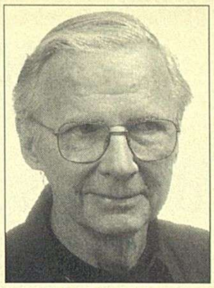
The pessimist may say that what he means is that there are *fewer* midlist titles; he *knows* this. That remark ducks the initial point—that trade publishers and retailers are now selling more *total units*—but what's more important is that he *doesn't* know; he didn't think, didn't check. When people say, "Midlist is dead," they mean in America today, not just in their house. So we need corroborative evidence based on the sum of *all* publishers. The form of the research required is this: Do a valid survey of mature publishers, counting how many "midlist" novels (stipulating any definition you choose) they had in 1976, in 1986 and in 1996. Some houses may show a decline, but the pessimist will be dismayed to see how often, when prompted to a hard count, houses have to admit they now see as many as—or more than—back then. Yes, tally McGraw-Hill, which dropped to zero. But also tally Algonquin, Birch Lane, Hyperion and the dozens of other houses created in the past 15 years that have gone from zero midlist to important numbers today. And examine the mass market houses that used to be exclusively paperback. This is the sort of thing the midlist necrologists should have done before convening the memorial service, but they didn't. Midlist is *not* dead.

More crucially: Every quasi-official "industry-wide survey" you've heard about—the ones the newspapers accept without question or understanding—has been based on faulty and incomplete data-gathering methods and invalid extrapolations. This column is justified in calling itself "The Cheerful Skeptic." When I heard that AAP and BISG numbers were saying that trade sales through May 1997 were down 6% from the first five months of 1996, my doubting-gland squirted. So I asked questions. I can now cheerfully report I've just been told that the five-month figures were *wrong*. Corrections have been made. The six-month figures show that trade sales are *up* this year.

The truth is that, though individual houses may need to be burped—and this has always been the case—the book-publishing industry as a whole is alive and very, very well.

McCormack, former chairman of St. Martin's Press, will offer occasional commentary under this heading.

The Crisis—New Yorker Style



McCORMACK

BY THOMAS McCORMACK

The nearest thing to a crisis in publishing is guys like Ken Auletta writing about the "crisis" in publishing. Reading his recent piece in the *New Yorker* ("The Impossible Business," October 6) is better for the cardio-vascular system than a hard jog in the park. Picture a man my age doing a breakdance—of frustration. I counted 16 passages in the article that made me want to call 911, but I'll cite only three.

1. Auletta accepts with no questions the AAP's figures about adult trade sales. This is a bad mistake, and it could have been avoided if he'd shown the minimum amount of healthy skepticism any good journalist should bring to his job. Here is what I found out in just one morning of investigation: the AAP monthly figures are based on data received from just 25 trade publishers. LMP lists 900 trade publishers. The 25 are not the same from month to month. The 25 do not report the same kinds of figures—some report net, others gross; some orders taken, others books shipped; some units, others dollars. Don't be too quick to yell at the AAP. They've been fighting for years to get publishers to take this reporting seriously, without success. And of course the 25 regularly include large established houses that can often be static from one year to the next, while *not* including any of the younger houses where the dynamic growth is. The key industry number-cruncher told me personally he has no idea how accurate the final figures are; he can only work with the data he's supplied. To get an idea of how deranging this can be, consider the following: the cruncher told me adult trade sales through May 1997 were reported to be down 12.4% from May 1996; the figures through June are *up* 1.2% from the six-month sales of 1996. That must have been one hell of a June. (No, Virginia, it was not; Santa didn't come in June; he'd actually been coming through most of 1997.)

The nearest thing to a crisis in publishing is guys like Ken Auletta.

2. Auletta parses the profit margin of a one copy of a book, with results that are disastrously wrong. According to him, each copy of a book sold entails the following costs: 10% of the cover price for manufacturing, 8% for distribution, 7½% for marketing, 8% for "overheads" (rent, salaries, etc.) and 15% for the author. He then talks about *Angela's Ashes*, assuming 1,600,000 net copies sold. He says that Simon & Schuster will "earn" more than $3,000,000 on the book, including $600,000 from its share of the paperback rights. This implies that S&S "earns" about $2,500,000 from book sales alone. But the truer figures are these: receipts from 1,600,000 sold, $19,500,000, minus: $2,600,000 in manufacturing, $800,000 in distribution, $500,000 for marketing, $6,000,000 to the author, and $500,000 for unsold books. Let's minus another $700,000 for other incremental costs like the boss's bonus. Total costs: $11,100,000. S&S "earns" $8,400,000, plus $600,000 for rights. That's $9,000,000, not $3,000,000. What was Auletta's mistake? He didn't discern that throughout his percents there are buried fixed overheads that don't go up as each book is sold. Ask: Did S&S's landlord exact more rent each time S&S sold a copy of *Angela's Ashes*?

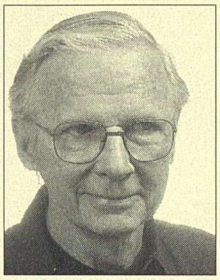
3. Auletta is not alone in his unquestioning acceptance of the imbecilic analyses that so many Wall Street folk and publishing execs apply to our industry. The single most misplaced index of a publisher's performance is: profit as a percentage of sales. Do you want to increase that percent overnight? Shut down the premium and special sales departments. Sure, profit as a percent of sales would go up, but the absolute amount of dollars of profit would go down. And that would lower the score on the most valid measure of performance, and the one that should be the most important from Wall Street's point of view: return on investment. Ask yourself this: Given the same investment, would you rather have a 6% profit on $100,000,000 sales, or 10% on $40,000,000?

Why am I so hard on the oracles of unwit who write and talk about our business? Because all by themselves they can cause an investment crisis in publishing. Their ignorance of publishing and of basic financial analysis, combined with the large forums they command—the *New Yorker*, the *New York Times*, the *Wall Street Journal*, the *Nation* and others—chills the readiness of their huge readership to invest in the book world. And it stops bright young people from entering a seemingly doomed industry. And it unjustifiably encourages good people who are already in the industry to look elsewhere.

McCormack, former chairman of St. Martin's Press, offers occasional commentary on the state of the industry.

Maybe Your Returns Aren't High *Enough*

BY THOMAS MCCORMACK



THOMAS MCCORMACK

"Our aim today," the moderator begins, "is to find some way to reduce returns—" My skeptical hand shoots up. (I admit it does that a lot; it's only semi-voluntary, really.) "Whoa," I say. "That assumes that returns are too high, and we haven't established this yet..."

Don't, Reader, immediately murmur, "That's nuts, Everyone can see returns are too high." My shtick is, I don't believe Everyone. Returns are nasty and depressing, but so is garbage, and I'm sure there's an undetectable Ph.D. thesis somewhere on the high correlation between the volume of garbage and prosperity. I'll now argue that returns are essential to maximize profit, and that the highest acceptable rate is much higher than Everyone thinks.

> *'By raising the returns rate from 20 to 35%, everyone gets richer.'*

A sure-thing way to reduce returns is to sell only non-returnable. "Forget it," Everyone says, and, though it always gives me pause when Everyone agrees with me, I have to say he's right. Non-returnable is a terrible idea because initial orders would plummet. Everyone wants his books to stampede out of the store, and he knows they have to be seen to be heard. Millions of books are browse-bought—by customers not specifically hunting for this title. If yours isn't there to be browsed...And: If customers do know what they want, you better see it's right under their wallets when they want it, or the sale may be lost forever. So let's get a big initial laydown.

Everyone thus has a vague notion that there's an optimal returns rate, but he has no idea how to think about it. Here's a model based on a $25 book. It implies that by raising the returns rate from 20% to 35%, Everyone—publisher, bookseller, and author—gets richer.

Scenario: A sales manager says to his publisher: "We have 50,000 advance orders for Faith Hope's new book; off her history, I'd say we can expect a sell-through of 80%. I could force another 50,000 out there, but I'll bet returns on that 50,000 would be 50%, so naturally you don't want me to do that." What should the publisher respond?

This: "Go! Now! Print and ship the second 50,000!"

Why? Because total new revenues will be $325,000, total new costs, about $231,250. Increased contributions to fixed overhead and profit: $93,750.

Here's a stunner: The returns rate on the second 50,000 shipped would have to exceed 70% before the decision to ship literally lost money. Second stunner that often applies: If Faith Hope's author-advance is so high it will never earn out, the contribution from the second 50,000, even with 50% returns, jumps from $93,750 to $187,500.

But it's the bookstores that returns are killing!

Oh? Are they? Let's see. The stores pay freight in on 50,000 books and freight back on 25,000. Total new costs (including paying the publisher for the 25,000 they don't return) are $393,750. New revenues: $625,000. New contribution: $231,250.

Moreover: Even if the stores returned 75% of that second 50,000, they'd still have an additional $78,125 to pay their rent (and, you may say, to pay the extra clerk that all these returns require).

No doubt you've noted my scurrilous insinuation that bookstores make far more money—in the sense of a larger contribution to overheads—from any given title than its publisher does. (The only significant exceptions being a few titles with huge subsidiary rights sales and modest retail sales.)

Here's Everyone on mass market publishers: "Those guys seem content with a new-book returns rate of 50% not just on flops but on average! And they pay the freight! Decades ago their returns were much lower so they worked hard to overdistribute! Ho, could we teach those fools a thing or two." Yes? Has Everyone done his arithmetic? Nah.

Scholia: (1) If a publisher boasts that this year's best-seller was a great success because the sell-through was 90%, chances are he's boasting about a huge failure in profit-achievement (and author earnings). (2) Why do you suppose it is that if a sales rep consistently has a returns rate of only, say 5% in his territory, the home office suspects he isn't doing his job? (3) This decade shows a rise in returns-rate—and a bigger rise in sales and royalties. Hmmm. (4) Let's suppose Everyone could maintain his net units sold while getting a nice low returns rate. He'd still face the original question: If you could ship another 50,000 and get half of them back, shouldn't you do it?

I await the fusillade of challenges beginning, "Cheerful Skeptic seems to have overlooked the..." No, Everyone, I don't think I have. It's simply that, as Fermat said, I have a marvelous detailed proof of this argument which, however, the margin is too narrow to contain. ❑

THE CHEERFUL SKEPTIC

When Fare is Foul...

BY THOMAS McCORMACK

McCORMACK

AN AGENT ONCE CAME TO LECTURE at the Publishers Lunch Club. Guest speakers are usually billed as giving a "talk," but this was definitely a lecture. In the world-weary tone of a disappointed but unsurprised headmaster of a rich kids' reform school, he sighed that publishers were stupid, greedy, devious, dishonest and incompetent. In fact, he said, this was why the occupation of agentry was created in the first place.

The potted history portion of his reproach begins centuries ago, where there was just the writer and the printer. The printer bought the book outright for a flat fee and showed the author out the back door. No matter how many printings and sales the book—and the printer—enjoyed, the author never saw another ha'penny.

The abuse of the author was so palpably heinous that there arouse an entity between him and the printer, someone to protect the writer's interests. This entity was called the "publisher."

But relative power corrupts relatively, and within a couple of centuries the publisher had perfected such new ways to abuse writers that there came forth another species of middleman protector—the agent. He would stand between the innocent, ravishable artist and the iniquitous predator with the imprint. He would "look after" the writer. Shame that such a guardian is needed, but there it is, must be done. (A chastening over-the-top-of-his-glasses slow-scan of his audience. I see Michael Redgrave in the part.)

The agent looked as surprised as if he'd been kicked by a horse in his drawing room

During the course of his admonitions our speaker raised the matter of graduating royalty rates.

Background: In most author contracts, the royalty is 10% of the cover price over the first 5000 copies sold; 12-1/2% over the next 5000, and 15% thereafter. So, on a $20 book, he goes from $2 per-book-sold to $2.50 to $3. The original point of graduating royalty was this: When a publisher issues a book, there are one-time-only expenses (e.g., typesetting, jacket art...these are called "plant" costs), and there are ongoing costs that persist for as long as the book remains in print (e.g., paper, royalty). The thinking behind royalty-graduation was that the publisher prices the book to pay off his plant costs from the proceeds of the first 5000 copies. (I won't critique this thinking here; I'll just describe it.) After that, each time he sells a book his "profit" is greater because he isn't deducting from the revenues anything further for plant. So why shouldn't the author share in this increased margin? (The justification of the second graduation, to 15%, is dimmer, but we'll pass over it here.)

It's obvious, said Michael Redgrave, that, as the sales soar, each book is easier to sell; a bestseller, for heaven's sake, sells itself! Isn't it only fair that, since the money is rolling in with less and less effort on the publisher's part, the graduation should go on up? His bottom line: There should be two more graduations to raise the top royalty rate to 25%. Rudyard Kipling got it, so every author should.

My hand went up. (When I have my lobotomy, the first chunk to go will be my deltoid.) Every argument you make, I said, applies to the agent as well. The initial sale of the manuscript takes time, effort and expense. But once the book is up and running your required effort diminishes. When the book is a bestseller you're simply a spectator as the sales rise to 100,000, 200,000, 500,000. Your attention is focused on selling rights, perhaps, and even there it's often just a matter of fielding telephone calls. (That last sentence will prompt a snarl of denials, but know this: There are even agents who've admitted to me it's true.)

Given that, I said, I presume you have no difficulty in offering authors a graduating commission rate? That is, you'll take 10% (or 15%) on the first so-much earned, then you'll go down to 8% for the next so-much, then 6%, and so on down?

The agent looked as surprised as if he'd been kicked by a horse in his drawing room (he might say kicked by a jackass). I'd swear the notion of a down-sloping commission rate had never occurred to him. Michael Redgrave suddenly looked like Rodney Dangerfield. After a classic sputter, his only reply was, "Well, I think that's something solely between an agent and his client!"

To update the potted history: In recent years, there has arisen a new protector in publishing—someone to stand between the pregnable author and an agent. He's called a *lawyer*. We now see fee-only attorneys called upon to "look after" writers, save the artless artists from foul and most unnatural commissions. A shame, really. But there it is, must be done.

McCormack, former chairman of St. Martin's Press, will offer occasional commentary under this heading.

The Great Variable Underhead Question

BY THOMAS McCORMACK

Sick joke about the media: Question: "To a book business reporter, what constitutes overhead?" Answer: "Everything."

As a genus, they know effectively nothing about their subject, the book business. Moreunder, they seem to know nothing about the basics of business itself. A few years ago a publisher paid a very high price for a novel. A reporter stopped by, obviously in hopes that I would supply colorful ridicule of the publisher's judgment. Instead, I sketched out a projected P&L that showed how it could make a lot of money. "Oh," she said, "but you forgot to deduct 30% for corporate overhead." "Look," I said, "I charged for the only added overheads that pubbing the book will entail. See, here's $500,000 for promo, and 10% of sales for fulfillment, extra commissions, bonuses, even a little for 'displacement' effect." "No, no, you need to charge corporate overheads."

Ah. So this was how it was going to be. I now had to determine if she understood her own question. "Can we say this," I asked. "You want to know what their pre-tax corporate income will be if they publish this particular book, compared to what it will be if they decline it."

"Yes; that's it."

"Well, to calculate this, we need to list all the revenues from book sales and rights of this one title—monies they would *not* receive if they didn't publish it. From that amount we have to subtract all *and only* the expenses that occur solely because they do publish it. We mustn't charge against *this* book any expenses that they have to pay anyway even if they *don't* do this book.

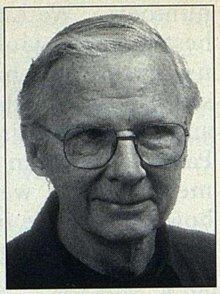
"But it has to help pay the president's salary." I could see an uneasiness in her eyes.

"Will his salary be paid whether or not we publish the book?"

She nodded.

"You can see that doing the book will not entail any payroll costs that wouldn't occur anyway? And their rent will be the same whether or not they do the book. Rent and payroll are what're called 'fixed' overheads. Doing this book affects only 'variable' overheads."

She nodded again, I think in more ways than one. I



McCORMACK

had to fight the bad impulse to eschew contractions and speak ever-so-slowly.

"Okay. The costs that occur only because they pub *this* book include what goes to the manufacturers and to the author, to the ad agency, and for a tour—I subtracted these in absolute dollars. And then I list all the other expenses caused by this specific book—shipping and billing, some commissions, bonus—all the things I mentioned. And that's what the 10% covers. Actually, on bestsellers it's a lot less than 10%. There is no other disbursement that doing this particular book will cause. The difference between all those revenues and all those costs has got to be the book's contribution to fixed overheads and profit—i.e., that's how many more pre-tax dollars the house will have if it *does* the book than if it doesn't." I smile; a job well done.

"Where's the corporate overhead? The 30%? You take that out and the book's a loser."

You laugh. Well, listen to this, it's better than the death of Little Nell: A large percentage of the book execs reading this piece will agree with her. The inescapable implication of their thinking is that if the house does the book, their rent, payroll, insurance, etc. will go up by $5 million that year (and down $5 million the following year, when they aren't doing it). Is it possible they don't understand the concepts of incremental costs and contribution to overheads? Most of them understand them abstractly, but in practice every contract-request form they address has a big corporate allocation charge (sometimes it's called "G&A"; sometimes it's only 17.5%), and their decision on whether or not to buy the book is based solely on the daft bottom-line percentage (usually the required percentage is 10%–20%). But more on book execs another time.

Believe it or not, I hung in there with the reporter (and she did with me) until at last, her mouth sagging, and her eyes troubled, she said, "I see what you say"—but she was sticking with the 30%. Why? Because, she said, so-and-so had told her, and he was a Famous Publisher, and he often commented for her.

Update: Within two years Famous Publisher was fired. And the publisher who did the big book? Poor guy tells me he showed no "profit"—only a $1,500,000 contribution to his fixed overheads—which indeed had not gone up because of the book.

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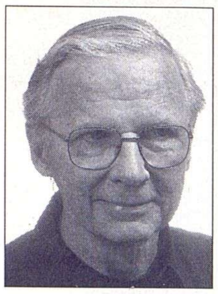
Bigger Is Confusinger

BY THOMAS McCORMACK



McCORMACK

The Bertelsmann acquisition of Random House should be investigated by the National Institutes of Health. It germinated an epidemic of deranged journalism we can call "mad bull disease." Take the op ed piece in the *New York Times* titled "In Publishing, Bigger Is Better". I quote the author, one Porter Bibb, "investment banker": "Even though last year's total American consumer book sales were a record $16.7 billion, most publishers are barely showing a profit. After all, the average operating margin for all American book publishers last year was a healthy 17.4 percent. And book publishing is somewhat more profitable and produces a higher average return on assets than cable television, magazines or movies. But it is exactly this lingering, idiosyncratic inefficiency that has held the publishing industry back for so long." Huh? Whadeesay?

No, I didn't misquote him. I simply brought together four sentences that his typewriter—and his mind— separated in his article. Bibb's uncanny solution for the "inefficiency" in publishing is to institute a "no returns" policy. He thinks allowing stores to return unsold books is an unconsidered hangover from the days when stores "lacked the cash to buy new inventory". But the reality behind allowing returns is this: Scores of publishers importune stores to take thousands of titles on faith: The stores can't possibly read and evaluate each title, so the publisher is saying, "Trust me." "Okay," say the stores very reasonably, "I'll trust, but if they don't sell the way you say they will, I want to be able to send them back." That, not lack of cash, is why publishers accept returns.

Bibb seems to think that it's the stores who push the publishers to large printings. He thinks this because he doesn't know how publishing works. Sure, on rare occasion the stores will be even more optimistic about a title than the publisher, and the first print is higher than the house originally planned. But usually publishers undershoot their advance target—which was an inflated number anyway, intended to spur the sales reps to mighty efforts—and the actual first print is smaller than the "announced" one. Uneconomic overprinting is not caused by the bookstores.

But wait; why was a no-returns policy so big a part of Bibb's comment on the Bertelsmann acquisition? Because he believes the new Random House would agree with him that stopping returns is a marvelous thing, and Random will be so huge that it will be able to impose its will on the recalcitrant stores: "Not even superstores like Barnes and Noble could hold out against a publisher that fills up a third of their shelves." "Hold out against?" They won't hold out; they'll order the titles; they'll simply cut their first order by 50% or more. This I guarantee: If ever Bertelsmann were so dim (and they won't be) as to say they'll take no returns of their mega-selling authors, they will no longer fill up one-third of anybody's shelves. (In an earlier column on Nov. 24 last year, I showed why alleged "overdistribution" usually produces huge extra profit for publishers, stores, and authors. Force another 50,000 out, and even if half of them are returned, everyone gets richer. Most publishers understand little of this, and Bibb, the "investment banker", understands none of it.)

Bibb also seems to think that, now the Bertelsmann warehouses and the reps bags have twice as many titles to carry, they'll have lots more room to carry the lists of small publishers who lack storage and distribution muscle of their own. If he'd been able to perceive the necessary research and to have done it, he'd have learned the following historical and logical fact: Publishers take on distributees when they find themselves with warehouse and distribution capacity larger than their own product can fully employ, and, when publishers get larger, they shed distributees rather than seek new ones.

Let's agree that op ed editors can't be expected to understand the physiology of publishing—but they ought to be able to notice two fundamentally contradictory assertions in the same piece even if they are separated by a few paragraphs. An infectious story like the Bertelsmann one produces a fever in editors that reduces their IQ to their temperature, and they rush writers like Bibb into print. But such writers shouldn't be placed on the news pages; they belong in the entertainment section.

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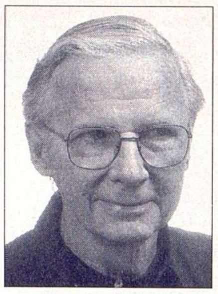
Super Stores

BY THOMAS McCORMACK



McCORMACK

The other night at a dinner party, I sat next to a woman who remarked, "I won't shop at a superstore. I want to support the little bookshops where you can get the good books you want." I asked her what she meant. "Barnes & Noble sells only bestsellers and remainders. Small publishers can't get their literary books into those superstores." I asked: Ever been in a superstore? Answer: no—her information came from the newspapers.

This chance (true) encounter underlined for me the harm done to the bookreaders of America by wickedly effective disinformation. There's much to be said about the questionable impact of superstores on small independent booksellers, and on publishers. But in this column I want to speak up for that often-forgotten constituency—the *readers*, of which I am one.

The chains have flatly lost the PR battle with the Small Independent Bookstores (SIBs). Thus the first point to clarify: "Superstores" does not equal "chains." That huge, treasurable and *independent* reader-resource in Denver called The Tattered Cover is a superstore. There are other independent superstores in communities all across the nation—many of which were themselves once SIBs.

The repeated indictment against superstores—and the one my dinner-neighbor was inculcated with—is this: The departure of a SIB will deprive customers of the idiosyncratic and literate selections of the owner—the rarefied titles from tiny "quality" publishers that superstores refuse to stock. In a phrase, the superstore will culturally pillage the neighborhood.

Countless readers, having read it so often, believe this implicitly without ever going in a super to see for themselves. I would love to have the equivalent of a Tattered Cover in my neighborhood. And, happily, I do. My own local bookstore, the one nearest my home, is the B&N superstore at Lincoln Center in Manhattan. My local super carries 160,000 titles—that's *titles;* the number of *books* is several times that. A typical SIB can carry 5% to 10% as many; a medium-sized bookstore carries between 20,000 and 50,000 *books.*

Take the quintessential genre of literary book issued by small, quality publishers: poetry. The Lincoln Center superstore has over 3000 volumes by over 500 different poets. I started counting publishers and when I got to 125 I quit, unfinished. The majority of imprints were university presses and tiny houses I confess I'd never heard of—exactly the sorts of houses the supers' disparagers claim you'll never find there. B&N has over 30 specialist buyers. (Most SIBs have one.) The company has been so beat up in the PR wars, I'd hate to be their poetry buyer. He goes home at night and his Mom says, "I see by the paper you're a cancer on society, Junie. How come the only poets you stock are Rod McKuen and Jimmy Stewart? No dinner for you tonight, you culture-snuffer." "Aw, Ma..."

My local super has books from more than 7000 different publishers. Bestsellers *are* an important part of the store's business: 5% of it. All that non-royalty stuff is another 2%. Ninety-three percent of the store's sales are from 7000 real publishers, large *and small*, pop *and quality*, new titles *and backlist.* In sum, it's untrue that superstores are the enemy of literary readers and publishers because they carry only remainders, cheap reprints of classics, and bestsellers.

Here is the dark, usually unspoken secret the disinformation campaign would suppress: If forced to choose, the immense majority of America's readers would prefer their local shop to be a superstore—if they knew the truth about superstores. My local's customers would no more trade it now for a SIB one-tenth its size than they would Lincoln Center itself for Carnegie Hall. And with good reason. How would you react if the librarian of your one-room local library opposed plans for a new library 10 times bigger, because it would put her out of business?

When I was a child in Stamford, Connecticut, folks cheered for many reasons when they saw A&P or First National open a "supermarket" in their vicinity. It wasn't true that A&P was soon the only source for food. Specialty shops were born, and they survived because there were things they could beat the A&P at. I'm a theater buff, and I shop at the Drama Book Shop and Applause. I usually buy bestsellers at the Coliseum bookstore because I walk by it so often. *Marden's Guide* lists 580 book outlets in Manhattan—where there are more superstores than anywhere.

Back in Stamford we used to wonder aloud, "Do you think supermarkets are here to stay?" They are—and, many of us readers have reasons to hope, so are superstores. ❑

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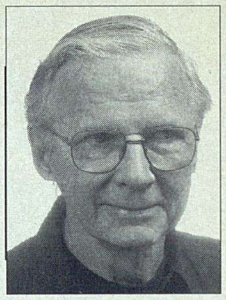
An Occupation for Gentlemen?



McCORMACK

BY THOMAS McCORMACK

"That's not fair!" It's a cry heard anomalously often in the industry once called "an occupation for gentlemen" (itself a phrase that signaled an unrecognized unfairness). But there's no indisputable test for "fair." "Legal," yes; "fair," no. What strikes you as loathsome abuses by publishers, booksellers, agents and—let's say it—authors, always have someone claiming they are fair.

Let's spend a miserable three minutes together reviewing some book-world tactics that, astonishingly, were defended as "fair" by somebody. True stories, all:

1. Publisher has huge backlist bestseller. Notices author's royalty has escalated to 15%. Announces "special backlist offer to booksellers" that raises their discount from 48% off to 51%. Invokes "over-discount" clause in author's contract which reduces royalty to 10% of price-received. He now gets 4.9% royalty. Net gain to publisher: 7.1% of list on each book.

2. Publisher signs up biography of XXX (name deleted to protect the expletives). Writer works hard, delivers just before deadline. Meantime, another, unexpected, biography of XXX is published. Publisher silently notes ms is 8000 words longer than allowed by contract, waits till after delivery deadline, declines, citing contract.

3. Book club buys rights, never offers book as selection—only as one of four-books-for-a-dollar in new member solicitations. Royalty payable: 2.5 cents per book.

4. Agent has completed ms in hand. Good subject, awful writing. Hides it, gets pro to write terrific "proposal" based on ms. Sells book on proposal, delivers original ms.

5. Author, much-revered icon and voice of moral rage against injustice, signs three-book contract, never delivers. Agent admits author never intended to write the three books, just needed money. Publisher has to settle for one book, an anthology of already published scraps, assembled by publisher, but lacking author's most desirable pieces which are in print elsewhere; author keeps advance for three books.

6. Publisher has great book idea, goes to famous crusading author, who signs contract, takes advance. Three years later returns advance, admitting he signed seven contracts that year because he needed large chunk of cash. Meantime publisher's second choice as writer independently comes up with the same book-idea, writes it for another publisher; and it becomes a number-one bestseller.

7. Publisher has great book idea, asks agent to suggest a writer. Writer produces wretched proposal, publisher declines. Agent declares she now feels free to sell the idea—even with another writer—elsewhere.

8. Agent auctions book. Later, another publisher sees ms, offers more than winning bid, gets book when agent tells winning publisher the auction is invalid because winning bid did not meet previously unmentioned minimum requirement.

9. Agent sells book. Ms is delivered late and unpublishable. Agent tells publisher, "I can talk her into giving back her 90% of the advance; if you agree I don't have to pay back my 10% commission."

10. Agent at large agency sells next book by author. Meantime author's last book is pub'd, sells big. Agent moves to another agency, sees way to second (and larger) commission. Writes to five editors: "How much would you pay for XXX's next? Please keep this query quiet, it's under contract at YYY house, but I think I can shake it loose. I just want to do my author a good turn." Kicker: four of the five editors actually submit bids on the under-contract book. Only one calls YYY to tell him something foul is up.

The exhausting list is inexhaustible. Small agent works for years to build author CCC, who, as soon as he *is* built, jumps to bigger agency. Publisher postpones BBB solely to give AAA precedence. Publisher says now-departed royalty clerk "forgot" to reconcile actual returns with reserve against returns. Big hard/soft house buys paperback rights of small publisher's only big author—then steals him for hardcover also.

Fair? Hey, "I'm just trying to keep my business alive so my employees' kids can eat." "My first responsibility is to my author; I'm only trying to do the best for him." "My agent told me it was all right." Blessed are the amoral; everything they do is fair.

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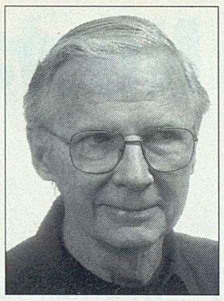
Often-Asked Questions

BY THOMAS McCORMACK


McCORMACK

1. *"In your column on returns, you said that a publisher can break even on printing and shipping that extra 50,000 copies even if returns are 70%. How's that?"*

Paper, printing and binding on each book (in the example) is $2.25. So 50,000 cost $112,500. Shipping, billing, processing returns averages $.50. That's $25,000. Disbursement so far: $137,500. List price: $25. Publisher receives $13 for each book sold by the stores. If returns are 70%, publisher collects on only 30%—or 15,000 copies. 15,000 times $13 is $195,000. Additional author royalty: $3.75 for each of the 15,000 copies sold—$56,250. So total cost occasioned by that extra 50,000 is $193,750—additional revenues are $195,000.

And if the author's advance is so high she'll never earn out, the publisher actually gains $56,250 and change when returns are 70%; break-even returns rate is 79%! Even then the publisher gains because chances are they'll remainder some books for royalty-free cash.

2. *"You don't want to allocate fixed overhead to each book. How would you have these costs covered? Would you not assign them in some proportionate way?"*

This is a good but complex question. There's no room for the detailed answer here, but it's posted on the *PW* Web site (publishersweekly.com), under the title "Book Publishing Accounting: Some Basic Concepts." Some excerpts:

Fixed overhead (FOH) comprises rents, salaries and other costs that don't rise as you publish each new title. "Contribution" is what's left after you deduct from revenues all title-specific costs—manufacturing, royalty, advertising, fulfillment, etc.

"Assigning" FOH arises when execs: (a) decide whether or not to okay proposed new titles, (b) price those titles.

When pricing books, you *should* require a contribution to FOH (calculated as a percent of sales). The glum reason why is that no one has a better way to do it. What's the best price to put on a book? Here is the entirely correct, semi-useless answer: the optimal list price for a book is the one that maximizes the contribution in absolute dollars. But usually—despite any alleged "feel for the market"—no one knows for sure what this is. So, general rule: when pricing the title, "charge" it with a contribution-needed percentage—equal, say, to what last year's FOH was as a percent of company sales. (This will, willy-nilly, be "pricing to market" to the extent of roughly matching your competitors.)

When deciding to buy a book, you should *not* use an allocated percentage of anything—you should look at absolute dollars. Execs obliterate the actual dollar-value of a proposed new title by charging it—alongside the title-specific costs—with another "cost" called "allocated fixed overhead." It's always, inanely, a percentage of sales— implying that the higher its projected sales, the more extra rent it will cost (!). Example: an editor rushes in with a hot, ready-to-go book. He says, "But it's costly, and the contribution will be only 25% of sales. Still, that's $100,000 and we can have it this year!" The exec who briskly produces his book-proposal form and says, "Can't you see it says here each book is a loser if it doesn't have a contribution of 35%?" should be asked in return: "And can't *you* see you just said no to $100,000 extra profit this year?" Because the fixed overhead will not go up 10 cents if you do this add-on book.

Two scholia: (1) Don't delete a title solely because it has a low contribution percentage. If you can't replace it with another title that has more dollars of contribution, you have just increased your loss for the year. (2) Editors: the value of your book to your company is expressed in its contribution, not in some "profit" line minimized by corporate FOH deductions.

3. *"Did you yourself ever use the tactics in 'How to Sell a Publishing House'? "*

No, I didn't—that would have jeopardized my hard-earned image as preachy and judgmental. Besides, the way others recoil from, say, pornography, I recoil from devious stupidity in powerful execs. But I've seen every one of those tactics tried—often on me. I was involved in the selling of only one company—which I thought was a good acquisition for the buyers. But—consistency!—even then I played the cheerful skeptic, downgrading predicted synergies, and denigrating the validity of various buzz-concepts.

I asked *PW* to run a banner at the top of the column saying, "Mr. McCormack wants everyone to know he did none of the things in this week's column," but they wouldn't do it.

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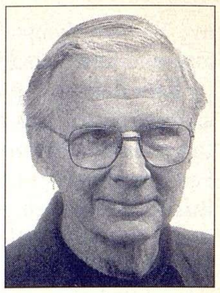
When 2+2 Equals 13

BY THOMAS McCORMACK



McCORMACK

EDITORS OFTEN SMILE ruefully and say a seeing-eye dog would find a way through numbers better than they could.

But the other day I was part of an AAP seminar called "Finance for Editors," and I found a numeric topic that was quickly and painfully understood by all. It's a practice I've touched on in earlier columns.

When an editor wants to buy a book, she's usually confronted with a "Proposed Title P&L." This form predicts all the revenues the title should generate, and all the costs it will entail. Very often, one of those costs is labeled "corporate overhead," or "allocated overhead."

It's almost always a percent of sales, and 30% is typical. If a title has sales of $3,000,000, the form asserts it costs the company $900,000 in new corporate costs.

This allocated overhead can also come up on the postmortem P&L, which lists all the actual revenues and costs, as distinguished from the proposal's mere predictions. It's a menace in both places.

Exactly what costs are "corporate"? Not the title-specific ones—manufacturing, royalty, fulfillment, commissions and promo. They're already listed on the title's rap sheet above "corporate." Corporate means *fixed overheads*—like rent and salaries. But rent and payroll don't go up when sales do—that's why they're called "fixed."

Well, so what if the $900,000 is a mythical cost—what's the harm? Keeps the editor striving. No harm? Suppose the $3,000,000 title is predicted to have large title-specific costs—expensive manufacturing, unearned chunk of author-advance—that eat up $2,250,000. That leaves $750,000—25% of sales. Subtract 30% for alleged new corporate expenses, and the P&L predicts what looks like a loss of $150,000. Many benighted execs will reject the book immediately, leaving them with no less rent and payroll that year, but $750,000 less to pay them. The same befuddled thinking that looks at percents rather than absolute dollars can kill small titles, too.

Postmortems are shunned in many houses. "They would only embarrass the editors." Or, more likely, the publisher. A well-run house should prepare for each editor an annual postmortem P&L on all her books. It would sum all the revenues and subtract all the title-specific costs, to get to a bottom line that ought to be labeled "Editor's contribution to fixed overhead and profit." It's a splendid tool for teaching and motivating. But suppose instead it also subtracts that 30% of sales for corporate, and labels the bottom line "profit." Picture an energetic editor rounding up everybody's postmortems for a year, and summing all the individual allocated "corporate costs." And finding they total far more than the actual fixed overheads of the company. Hey—that "profit" line is a complete fiction!

(A passing note: Though it's not irrational to talk about a title's having a "profit," it's misleading and potentially self-deluding. "Profit" is a term that applies to *company* performance; no matter how well any given title does, there is no profit until all the company expenses are paid.)

Suppose that energetic editor is on a bonus plan that gives her one-half percent of the "profit" of her books. She reaches for a gun, or a lawyer, or her résumé.

The $3,000,000 author's next submission arrives. The execs pull out the postmortem on his last one. It shows a "loss" of $150,000. So they cut bait on the author. Meantime the editors learn never to bring up books that don't show a robust "profit" after that 30% deduction— sacrificing uncounted dollars of contribution.

The pain can afflict a department head. She notices her departmental operating statements carry an outlandish allocated overhead four times what she knows her fixed overheads to be. If her department were gone, three-quarters of that corporate fixed overhead would still be there—and no contribution toward it from her. She fears, with good reason, that some top exec won't take that on board.

The worst effect of poor math teachers is their convincing students they must be number-dumb. Management tends to reinforce this in editors. The seminar taught a lot of them they're not innumerate. But new awareness has its hazards. There are few things more depressing than working for a boss you realize is not as smart as you are.

(My wider-ranging seminar text is a new posting at publishersweekly.com, titled "Profitability in Book Publishing: Financial Terms, Tools, and Tactics.")

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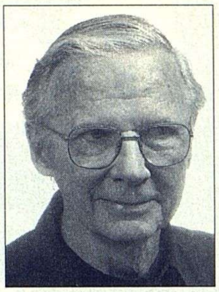
Editing Novels: First Do No Harm



McCORMACK

BY THOMAS McCORMACK

A WHILE BACK I wrote a book about the editing of novels. The premise was that you need sensibility—apt responsiveness—to be a good editor. But you also need craft. Sensibility can't be learned. Craft can. (All of which is equally true of the *writing* of fiction.)

Today's column is prompted by this revealing fact: Old-time Senior Editors tended to recoil from the very idea of the book. On principle they rejected the notion of a teachable craft. "Your instinct is your craft." "No two books are alike." "There shouldn't be rules for creative work."

Yes, instinct will tell you *that* something is wrong; but it won't necessarily tell you *what* is wrong. To believe that instinct needs no supporting craft is like believing that so long as a would-be doctor has eyes and ears, he needn't be burdened with medical school. Many a potential good novel has failed because, though the editor sensed something was awry, he lacked the diagnostic tools for discerning what the sub-surface faults were. The single most persistent complaint that writers voice about their editors—besides how slow they are—is that, though the line-editing is specific, in talking about the large issues the commentary is rambling, vague and too general to apply.

No two human beings are alike either, but they can both have diabetes. When you name two different books that faltered because of the same generic failure, Senior Editor will say, "Oh, that sort of thing is obvious"—which is a foot stamped in the right direction because it stops talking about no two books being alike.

The primary rule of editing is, first do no harm. If the novel isn't sick, get away from it with your diagnostic rules and tools. The writer's craft can't tell a novelist how to do it—only how to allow it to get done. Similarly, the editor wielding craft can't tell novelists how to write right; but if it's written wrong, it's the editor's job to be able to say where and how it's wrong. That's where craft helps.

Paradoxically—given their denying any lessons of craft—the most painful way editors can harm their authors is by making them conform to standard models. Confronted with a stylistic or structural inspiration they've never seen before, many editors will try to root the strange thing out. I've often felt visceral seizures caused by what I've seen editors trying to do to innovative work.

Frequently the things that make a great piece of fiction great are exactly those elements that are unlike anything we've seen before. The very people who assert there are no rules for art, in fact constantly try to impose cookie-mold rules on writers. "If it doesn't move the story forward," says the editor, "it doesn't belong in the novel (movie, play)." That's often an apt and useful criticism of a given passage or scene. But when it's not, it can result in an agonizing editorial blunder.

Here's a truth about most of us: Very seldom do we thrill to and remember an entire novel (movie, play). Mostly we remember certain characters and scenes; occasionally, certain lines. And notice how often that scene moves no action forward: The sermon in *Portrait of the Artist*, the whiteness of the whale in *Moby Dick*, Levin reaping wheat in *Anna Karenina*, Gatsby's party, Tybalt's riff.

The purpose of editorial diagnosis is to help identify what ailment is causing observable symptoms. It's important that the symptoms always be in terms of unwanted reader-reaction. The breaking of a cookie-mold rule is never a symptom of an ailment in a work of art; the symptom would have to be disappointment, bewilderment or the like in the ideal reader. In sum, craft without sensibility is useless.

The lack of thorough tutelage for editors hurts authors, publishers and readers. It's assumed that if you are a "good reader" you must be a good editor. You'll pick up the particulars by osmosis (but from whom?). And there is no textbook, no single compendium of the acquired medical wisdom of the best editors. I can think of no other craft or art that has antipathy to the notion of such a book. Everyone agrees we have to be taught to write, taught to read—but devil forbid we should be taught to edit.

In the next column I'll indicate—specifically—the sorts of tools that might be conveyed in a basic book of novel-editing craft.

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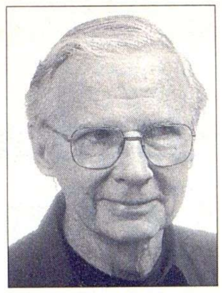
Editing Novels: Let's Preserve What We Know



McCORMACK

BY THOMAS McCORMACK

The editor's book-of-craft would give tips, tools and insights about how to help the novelist at every stage of planning, writing and revising a novel.

For example, the exceptional editor William Sloane wrote about moments in a novel that feel thin, papery, too clearly for "the reader's benefit." Can't put your finger on why it feels that way? Look for "*the one-thing-at-a-time scene*... a tea party where the characters talk about their ancestors and their families, and... announce that a new teacher is coming to town." The common reader may not shout "exposition" or "establishing shot," but he can still register when a passage is mechanically functional. (Sloane then suggests how to save both the scene and its expositional assignment.)

The final chapters of the script feel workman-like but attenuated, diluted. Why? Look for *serial resolution*. In a series of one-on-ones, Bridey confesses to Sean that it was she, not Kate, who betrayed Kevin. Sean tells Kate's beloved, Kevin. The relieved Kevin writes to Aunt Mary, who writes to Kate to beg forgiveness for condemning her. As any stage or film craftsman would see, what's wanted is a simultaneous resolution, with all five of them in the same room.

If the reader feels the novel is taking too long to "get started," to hook him, look for *premature flashback*. Don't ask the reader to be interested in characters' backgrounds before you've interested him in the foreground.

Something isn't right with Ben in the story. Oh, he's vivid, feels authentic, doesn't do incredible things, isn't offstage for long stretches. But still.... Apply the *character grid*. Ask: What does he want or promise, what does he do to effect it, what effect does he have, do we care about him, do we care about his goal? Vivid, credible Ben's problem may be that he has no essential role in the novel. (If you apply the grid to all the characters in the novel and too many of the answers are "nothing" or "no," you've probably got a book that needs a total overhaul. But always—*always*—keep the character grid and all other tools on the shelf if the novel feels great as is.)

There's a strange "row-boat" effect to the novel—speeds up, slows down, speeds up again. Look for insufficient *braiding* of the characters. If their lines of continuation are too unconnected, when you switch from one character to another you're constantly shifting down from third to first gear. This sometimes afflicts the familiar novel-form where we follow through their later years five girls from the same home town, or five guys from the class of 1980. Always beware of canned questions like "whose novel/play is it?" (Whose play is *Romeo and Juliet*, *Twelfth Night* et alia?) Still, there are times when the author has, almost through a failure of nerve, wrongly avoided that question. (Unconnected characters can be braided by a circumstantial element—they're all caught in the same earthquake, plague, revolution.)

You're reading a well-written novel but suddenly you turn the last page and you feel faintly diddled, by a book that's at once shaggy and vacuous. Look for too many *Character-outcomes not caused by those characters' actions.*.

How can you discern when the problem with the novel is a bungled POV—point of view? (It's far more complex than just a question of first person or third.) Or realize when it needs a critical missing element—an additional character, an early announced "plan," a ticking-clock, an added susceptibility or appetite in a character to generate an electrical connection with other characters? When should you refrain from naming a character? How can you break writer's block? How can you use "theme" to give guidance about that ultimate question—what to put in and what to leave out?

Over the decades, certain gifted editors have, in isolation, devised ways to deal with all these questions, and more. Let's collect and preserve these inspirations. Other editors can use them—and, obviously, so can writers. I'll supply the mailbox. Send them to me. Send enough, and I hereby guarantee the compendium will be published, with all contributors credited. ❑

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