How do you get paid for sales of your books?

This article will show you, by worked examples, how an author gets paid on the sale of each copy of their book, whether they publish traditionally, with a hybrid publisher or independently.

How to navigate this article:

Introduction

It is common for a hybrid published author, or even an independently published author, not to recover their outlay in publishing their book.

But if you can regard the outlay as an investment in one of the most important projects of your life, what can you expect in terms of royalties from ongoing sales of your book?

Traditionally published books

Even a traditionally published author might find a modest Advance has not compensated them for the long hours they put into writing.

Unlike hybrid or indie authors, it is feasible for traditionally published authors to 'earn out' their advance by selling enough copies of the book to cover the publisher's costs. Once that has happened, then income, in the form of royalties, starts to show up in the bank account. (See the note in the Glossary for a generalised outline of the UK tax treatment of Advances.)

Note how money only flows in one direction: from the publisher to the author. Remember, though, the hidden costs to the author: you may be expected to pay for marketing activities including your own travel and time expended, and you are unlikely to have any control over decisions to offer your books at a heavily discounted price in the event of poor sales performance.

Have a look at this worked example for what royalty payments might look like for the traditional author.

Assume that the author has signed a standard publishing contract with a traditional publisher. (Royalty rates and terms vary widely, depending on the specific contract negotiated by the author and publisher. They could be as low 7.5% or as high as 12%, depending on a wide range of factors. Advances could be $2,500, $5,000, or much higher, or non-existent).

Let's assume the following details for this example:

Book Price: $19.99

Royalty Percentage: 10% of the book's list price

Advance: $10,000

Step 1: Calculate the Royalty Amount

The first step is to calculate the royalty amount the author would receive per book sold. In this case, the royalty percentage is 10% of the book's list price, which is $19.99.

Royalty Amount = Book Price * Royalty Percentage

Royalty Amount = $19.99 * 10% = $1.999 (rounded to $2)

Step 2: Determine the Number of Sales Required to Earn Out the Advance

Earning out is the term used to track sales of the book that will reduce the publisher's investment (the Advance) in paying for production and publication of the book. The author receives no payment for sales of those books – all the receipts go back to the publisher, because they have 'advanced' the amount to the author in the expectation of making their money back on sales.

Number of Sales to Earn Out Advance = Advance/Royalty Amount

Number of Sales to Earn Out Advance = $10,000/$2 = 5,000 books

In this example, the author would need to sell 5,000 copies of the book to earn back the advance of $10,000.

Step 3: Calculate Royalties After Earning Out the Advance

Once the author has earned out the advance, they will start receiving royalty payments for each book sold.

The calculation is similar to step 1, but now the royalties are calculated based on the **net price of the book**, which is the book price minus any deductions or discounts.

Royalty Amount = Net Price * Royalty Percentage

Net Price = Book Price - Deductions (if any)

Assuming there are no deductions or discounts applied to the net price, the calculation would be:

Royalty Amount = $19.99 * 10% = $1.999 (rounded to $2)

Therefore, for each book sold after earning out the advance, the author would receive a royalty of $2.

It's important to note that this example provides a simplified illustration of royalty calculations, and actual contracts can have more complex terms, including different royalty rates for different formats (e.g., hardcover, paperback, e-book) or different royalty rates for different sales channels (e.g., domestic sales, international sales).

Also, when a consignment of your book is sold to a bookseller, it is sold at a **discount**. Typically, the bookseller would be charged 60% of the book's list price. So instead of the calculation above, this is what it would look like:

Royalty Amount = Net Price * Royalty Percentage

Net Price = Book Price - Deductions (if any)

Net Price = $19.99 - $8 = $11.99

Royalty Amount = $11.99 * 10% = $1.19 (rounded to $1.20)

Additionally, the publisher might deduct certain expenses or fees before calculating the author's royalties.

Authors should carefully review their specific publishing contract to understand the exact royalty terms and any other relevant details.

Hybrid and Independent Authors

For authors who work with hybrid publishers or indie authors, who, by definition, have to lay out money to produce their book, impressive profitability is not impossible, but it is rare. In the case of physical copies, whether you opt for print runs (probably described as 'more economical') or for Print on Demand, the production costs may well outweigh your income, the royalties.

You would have to work hard to recover your investment, let alone make a profit on sales of your book.

If this shocks you, take a moment to think, 'Why did I want to write this book? Was I in the game to make money? Or did I want something else – to show I could do it, or to enlighten others about my stance, or to entertain myself and others with this book?'

Go into hybrid or independent publishing with your eyes wide open, knowing your own budget and your own writing goals, to avoid being dissatisfied with the bottom line.

Hybrid publication

In return for the large sum you pay a hybrid publisher, you can expect higher royalties than you get in traditional publishing.

Have a look at this worked example for what royalty payments might look like for the author who publishes with a hybrid publisher:

Let's assume you choose to publish your book with a reputable hybrid publisher. You will make an upfront payment, in a lump sum, for the publication costs and add-ons: anything from $6000 upwards.

Put that eye-watering cost to the back of your mind for now if you can.

Suppose your hardback book's list price is $19.99 and it is to be printed by Print on Demand. (PoD means what it says, literally one copy is printed each time a customer orders a copy).

You agree a royalty figure of 65% of the net proceeds of sale. No sales tax is imposed – improbable, I know, but it's an unnecessary complication in this context.

Remember, when a consignment of your book is sold to a bookseller, it is sold at a discount. Typically, the bookseller would be charged 60% of the book's list price.

So, your book at the discounted price costs the bookseller $11.99.

If we assume Print on Demand costs $4.15 per book, then the net proceeds of your book are $7.84.

Your royalty is 65% of the net proceeds: $5.10. The other 35% of the royalty amount goes to the hybrid publisher: $2.74.

You get $5.10 out of a book the list price of which was $19.99.

Royalties are calculated on the net proceeds of sales of books, not the list price.

What would it take to break even?

It might be possible, if you work hard at selling the books and take a second look at the print costs.

You choose Print on Demand at $5 printing per book

Let's assume the following details for this example:

Publishing Cost: $6,000

Book Price: $19.99

Royalty Percentage: 50% of the book's net price (after deducting printing costs and distribution fees)

Printing and Distribution Costs per Book: $5

Step 1: Calculate the Net Price

Net Price = Book Price - Printing Costs - Distribution Fees

Net Price = $19.99 - $5 = $14.99

Step 2: Calculate the Royalty Amount

Royalty Amount = Net Price * Royalty Percentage

Royalty Amount = $14.99 * 50% = $7.495 (rounded to $7.50)

Step 3: Determine the Break-Even Point

Break-Even Point = Publishing Cost / Royalty per Book

Break-Even Point = $6,000 / $7.50

Break-Even Point = 800 books

In this example, you would need to sell 800 books at the price of $19.99 to break even on the $6,000 publishing cost.

'More economical' print runs

Publishers may offer seemingly attractive deals such as a fixed payment for, say, 1,000 printed books. The unit cost will be cheaper than Print on Demand because there is an economy of scale in printing 1,000 rather than just one book.

The thing you'll need to consider, though, is where are all those books going to be stored while you and the publisher try to find buyers? Will the publisher charge you extra for storage? Can you fit them all into your garage?

Let's run that calculation again, but this time, using the cheaper print-run cost per unit of $3.50:

Net Price = Book Price - Printing Costs - Distribution Fees

Net Price = $19.99 - $3.50 = $16.49

Break-Even Point = Publishing Cost / (Net Price * Royalty Percentage)

Break-Even Point = $6,000 / ($16.49 * 50%)

Break-Even Point = $6,000 / ($16.49 * 0.5)

Break-Even Point = $6,000 / 8.25 (rounded up)

Break-Even Point ≈ 727.27 (rounded to 728 books)

In this example, you would need to sell 728 books at the price of $19.99 to break even on the $6,000 publishing cost, instead of 800 books in the PoD model.

It's important to note that these calculations assume a simplified scenario, and actual hybrid publishing models can have varying pricing structures and royalty rates. It's crucial to thoroughly review the specific terms and conditions provided by the hybrid publisher to understand the exact royalty rate, any deductions or additional costs, and any other relevant details that might impact your break-even point.

But the real moral of this tale is to make sure you know exactly what you are getting for your money.

Indie publication

Publishing independently (Indie publishing) is how you keep all the creative control over your book. And it's cheaper – much cheaper – than hybrid publishing, once you written the book: **but the cost lies in Time and Effort:** of making a book out of your manuscript, getting a good cover, writing all the blurb, formatting it and uploading it to the platform of your choice.

Book Cover Design: The cost of a professionally designed book cover can range from $200 to $1000 or more, depending on the complexity, customization, and the experience of the designer. You can explore options like hiring a freelance designer (perhaps you know someone graduating from Design School?) or using pre-made cover templates.

Formatting: To ensure your book is properly formatted for e-book and print formats, you may need to invest in formatting services. This can cost between $100 to $500, depending on the length and complexity of your book. (I have a recommendation, no affiliation, at https://ruthbullivant.com/resource-page-for-writers/#formatting)

Editing: Editing is crucial for producing a polished book. You may want to consider professional editing services, which could cost a few hundred to several thousand dollars, depending on the level of editing required.

ISBN (International Standard Book Number): ISBNs are unique identifiers for books, and you'll need one for each format of your book. In the US, you can purchase ISBNs through Bowker at a cost of $125 for a single ISBN or $295 for a block of 10 ISBNs. In the UK, from Nielsen, at comparable prices.

Distribution and Print-On-Demand: Amazon offers Kindle Direct Publishing (KDP) for e-book publishing and print-on-demand services. The service is free but Amazon takes a percentage of the book's sales as their fee. Currently 35% for non-exclusive arrangements, 70% for exclusive.

Marketing and Promotion: You may choose to pay for this, and costs may include website development, book launch events, advertising, social media promotion, and professional book reviews.

Indie publishing worked example

Suppose these factors where an author chooses to independently publish:

Editing cost: $500

ISBN cost: $125

Formatting cost: $200

Cover design cost: $500

Book price: $9.99

Royalty rate: 70% of the book price

Print-on-demand (POD) and distribution costs: $3.50 per book

So the total outlay is $1,325.

The potential royalties are $3.49 per book:

Book price: $9.99

Royalty rate: 70% of the book price

Royalty per book: $6.99 (70% x $9.99)

POD and distribution costs per book: $3.50

Net royalties per book: $3.49 ($6.99 - $3.50)

If the author were to sell 100 books, then for an outlay of $1,325, they would recover $349 in royalties, and have spent $976.

To recoup their investment in full, they would need to sell 380 books.

Indie Authors - Direct sales

It’s worth remembering that once you have created your e-book, you can sell your book direct from your website. That way, you get to keep 100% of the royalties.

Sales reports

One more thing. A publisher (traditional, hybrid or independent publishing platform) should send an author a report on the sales of their book. The frequency of the reports depends on your agreement with the publisher. They could be monthly, two monthly or quarterly. The data in the reports depends on timely reporting by the end seller, so quite often there will be lags in the reporting.

An annoying little accounting feature of retail bookselling – from the traditionally or hybrid published author's perspective – is that the bookseller is entitled to return unsold books after a period, say, three months. So don't rely on the number of books sold to the bookseller; the only figure that matters is the net sales figure of a book sold to a customer.

Glossary

Advance

A publisher's *Advance* refers to the upfront payment provided to an author by a publishing house against anticipated royalties from the sales of their book. In the UK, an Advance is subject to taxation.

It serves as a financial investment to secure the rights to publish the work. The advance represents the publisher's confidence in the book's potential success and is typically negotiated based on factors such as the author's track record, market demand, and the overall quality and marketability of the manuscript.

This initial payment enables authors to sustain themselves during the writing and editing process and acknowledges their creative efforts, fostering a collaborative partnership between the author and the publisher.

Hybrid publisher

A hybrid publisher uses a publishing model that combines elements of traditional publishing and self-publishing.

The hybrid publisher and author collaborate in sharing the financial and creative responsibilities of bringing a book to market.

Unlike traditional publishing, where the publisher bears the financial risk and has creative control, or self-publishing, where the author takes on all aspects of publication independently, hybrid publishing offers a middle ground.

The publisher typically offers a range of services, such as editorial guidance, design and formatting assistance, distribution support, and marketing resources, while also requiring the author to contribute financially to the publication process. The degree of financial contribution varies from company to company.

Through this collaborative arrangement, hybrid publishing enables authors to retain a higher degree of creative control over their work compared to traditional publishing, while benefiting from the publisher's expertise and established network. It can be an attractive option for authors seeking professional publishing support while maintaining a greater stake in their book's production and royalties.

Enter into any arrangement with a hybrid publisher with your eyes wide open, and if necessary, with the benefit of legal advice before you enter into a contract. The Alliance of Independent Authors has a great tool, free, that allows you to check the reported status of some companies: scroll down the page on this link - https://selfpublishingadvice.org/best-self-publishing-services/

Independent publishing

This is where the Author takes complete control of the publishing process into their hands, or delegates all, or only certain functions (for example, editing, typesetting, book production, distribution) to a professional on a fee-paying basis.

You might self-publish by uploading your carefully produced e-book to Amazon or Kobo or similar, seeing to every aspect of the publishing process yourself. Or you might hand your manuscript to a book producer to project manage it from editing through to printing and distribution.

Taxation of Advances

In the United Kingdom, the taxation treatment of a publisher's advance depends on whether the recipient is classified as an **individual author** or a professional author who operates through a **company**.

Tax law and regulations change over time and may vary from case to case, so do not rely on this guide (which is for your information only) and seek up-to-date advice from a qualified professional.

Individual Author

Income Tax: For individual authors, the publisher's advance is treated as income and is subject to Income Tax. The advance is typically taxable in the tax year it is received, regardless of when the book is published, or royalties are earned.

Professional Author Operating Through a Company

Corporation Tax: If an author operates through a company, the publisher's advance is treated as trading income for the company and is subject to Corporation Tax. The advance is generally taxed in the accounting period in which it is recognized as income by the company.

Personal Tax: If the company pays the advance to the author as salary or dividends, the individual author may also have personal tax obligations on the income received.

Reiterating - It is important for authors to consult with a qualified accountant or tax professional to ensure compliance with the specific tax regulations for their individual circumstances.