Report to the Authors Guild Midlist Books Study Committee

By David D. Kirkpatrick

# The Midlist Study Group Report

A committee appointed by the Authors Guild set out a year ago to study the problem of the "midlist" book. With the help of a grant from George Soros's Open Society Institute, the committee hired the reporter David D. Kirkpatrick to research and write about what he found. The attached report presents his findings. One of the things we discovered in the course of the year is the highly controversial nature of this subject, about which there are few established facts or figures, and many strongly held opinions. Publishers, agents, authors, chain stores, and independent booksellers have widely differing views of the problem. As a result, we offer this report not as a definitive analysis but as the beginning of a conversation about the problems of the midlist book, and we hope that the writing, publishing, bookselling, and reading communities will enter into the discussion that follows.

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Authors have worried for years about the state of midlist book publishing. Lately, everyone else in the industry seems to share their concern. Disgruntled editors murmur that the media conglomerates taking over the business are abandoning intellectual and literary books. Local bookstore owners complain that the gigantic new superstores springing up everywhere push only blockbusters, cookbooks, and cappuccino. Publishers say they can't seem to make any money from most of their trade titles. It has become a commonplace for newspapers, magazines and trade publications to speak of a crisis in midlist book publishing. Despite all the talk, however, authors and readers often lack a reliable picture of the facts. Public discussion of the subject remains vague and anecdotal.

The Authors Guild, the Authors Guild Foundation, and the Open Society Institute commissioned this report to get a researched assessment of the condition of midlist books and authors. For the purposes of the study, midlist meant trade books with artistic or intellectual aspirations that weren't earmarked in advance as blockbusters---principally literary fiction and serious nonfiction. The term midlist in this report is meant to be inclusive, and to denote content as much as sales. We are not defining midlist as necessarily low selling or unprofitable, although of course few literary or serious projects become bestsellers or generate quick windfalls. Nicholas Lemann, who chaired the Guild's Midlist Book Study Committee and oversaw this report, told me at the outset to address the subject as an independent journalist, under no obligation to agree with the positions of the Guild. The report does reflect advice and comments from Guild staff and from authors who served on the Guild's committee studying midlist books, and in some places it notes differences in interpretation of the facts. The Open Society Institute funded my research.

Book publishing is a highly visible but stubbornly opaque industry. Reliable statistics are elusive. In trade book publishing, many of the most important companies are closely held and don't disclose much financial information. The public companies don't break out adult trade book results separately from those of other divisions. Wall Street analysts and industry consultants who track the business don't use the same categories that authors do---"serious books," "midlist books," "high-quality books." I tried to extrapolate from the best data available. I also conducted interviews with people from all aspects of the industry---authors, agents, publishers, editors, marketing directors, publicists, distributors, booksellers large and small, consultants, and accountants. Sarah Scheffel, a former editor at Viking-Penguin, read a draft of the report and contributed her thoughts as well.

A few disclaimers: there are questions often posed about book publishing that this report does not address. Do all worthy projects find publishers? Is publishing ideologically open and pluralistic enough? Are African-Americans or other groups underrepresented in the editorial ranks and restricted in their access to publication? This report is not an examination of these issues.

In 1981, the Authors Guild Foundation commissioned a report on authors' incomes, by Paul William Kingston and Jonathan R. Cole of the Center for Social Science of Columbia University, which found that the median annual income from books for an American writer is about $5,000. That figure has probably not changed substantially; it is still nearly impossible to make a living by writing books. This report addresses the economics of publishing, rather than authorship. It means to inform authors, and the interested wider world, about developments in their industry.

## Signs of a Crisis

The latest round of worries about midlist books began with a series of high-profile moves in 1997 by the publishing house HarperCollins, a unit of Rupert Murdoch's News Corp. In May of that year, HarperCollins announced plans to fold its Basic Books imprint into its main adult trade list. Basic Books was known for publishing intellectual nonfiction, and the move aroused the long-standing fear that commercial publishers were axing serious titles because they considered them unprofitable. (Basic Books and its extensive back-list of copyrights were eventually sold instead of consolidated.)

Next, in June, HarperCollins shocked the industry by canceling the book contracts of more than 100 authors, including a few contracts for titles that had already been advertised in its catalog. Jane Friedman, who arrived from Random House's Knopf imprint shortly after the announcement to take over as chief executive of HarperCollins, said, "We just decided not to publish more titles than we could afford to support with marketing and publicity---to publish only books that we could publish well." News Corp. reported an unprecedented $270 million write-off associated with these moves, which suggested deep financial problems at the house. HarperCollins even tried to recoup advance payments from the writers of canceled books that hadn't yet been delivered to the publisher in full. The Authors Guild vigorously protested the move, and heavy public criticism forced HarperCollins to retreat. Other publishers acknowledged that they too were pruning their lists, though more discreetly.

Independently-owned bookstores around the country sounded alarms about the midlist crisis as well. Small-store owners complained that the fast-growing national chains were driving them out of business and depriving midlist books of their best route to sales. In 1996, the independent store owners' trade group, the American Booksellers Association, settled anti-trust suits against six of the largest publishers, including Advance Publications' Random House, Houghton Mifflin Co., Von Holtzbrinck Group's St. Martin's Press, and Pearson PLC's Viking-Penguin, for giving preferential discounts to the chains. The ABA returned to court the next year to sue Pearson for breaching the initial settlement, and won a $25 million payment to its members. In 1998, the ABA filed a new suit in California federal court against Barnes & Noble Inc., Borders Group Inc., and other chains, alleging that they exact special discounts and promotional fees from publishers that give them an unfair competitive advantage.

Even the biggest publishers complained of a crisis: unprecedented returns of unsold books. Publishers' wholesale contracts traditionally allow a complete refund to booksellers for unsold inventory. But returns of new adult trade titles rose to a record level in 1997---over 35%, when the figure had been below 30% for most of the preceding decade. Some big publishers, including Simon & Schuster and HarperCollins, had to take back nearly 40% of the new books they shipped to retailers in 1996, according to consultants who work with both companies. The chains say that much of the increase was the fault of kinks in the ordering process at their giant new superstores. Many of the returns also came from Wal-Mart Stores Inc., Costco Cos.'s Price Club and other warehouse stores, which now sell a growing number of hardcover books and send back about 40% of their orders.

This was the situation in early 1998, when this project began. Since then, the German media conglomerate Bertelsmann/AG agreed to acquire Random House, which meant that the biggest U.S. trade publisher and one of its largest rivals, Bertelsmann's Bantam Doubleday Dell, had in effect merged. Barnes & Noble agreed to buy the largest book distributor, Ingram Book Co., a development that terrified independent stores because they thought it might mean that Barnes & Noble would get better access to books, or even confidential information about independents' orders, but opposition from federal regulators killed the deal. Bertelsmann also agreed to acquire a stake in Barnes & Noble's online book-selling venture. Although the full consequences of these alliances remain to be seen, such dramatic changes in the corporate landscape exacerbate authors' worries.

## Summary of Conclusions

The main challenge facing midlist books is less in getting published than in getting noticed and sold. The crux of the problem, described in pages 7-12 of this report, is that book sales are more and more unevenly distributed: A handful of titles accounts for an ever-larger share of sales. Bestseller sales are growing exponentially;  sales of midlist books have not kept pace. As the agent Virginia Barber described the situation, "The rich are getting richer, and the poor---there are more of them." This is the heart of the difficulty facing authors and editors of midlist books.

The best explanation for the leveling off of midlist book sales in the 1990s is in the rise of the superstores and other large chain booksellers. The core of this report is a discussion of the transformation of bookselling, in pages 43-56. Chain-store merchandising policies help turn consumers' attention away from midlist titles and toward an elite of books that are backed by heavy marketing budgets. Independent bookstores hand-sell favorite books to their customers, whereas chain retailers often charge publishers for favorable placement in stores, inclusion in ads, and other support. Publishers' marketing budgets for midlist titles usually include less than $5,000 to cover the total cost of advertising, book tours and other promotions---but just to get a book put on a table at the front of the store in one of the chains can cost $10,000.

The immediate consequence of the chain stores' merchandising policies is a great increase in the cost of marketing new books. Whenever publishers announce reductions in their lists, they attribute them to the growing expense of properly promoting the titles they do publish. For authors, winning marketing support within a publishing house is much more difficult than getting a book contract in the first place. Behind-the-scenes marketing decisions often decide a book's fate.

Another, more familiar reason for the squeeze on sales of midlist books is a decline in library purchases. The 16,000 public libraries in the U.S. can be counted on to provide a base for sales of the most well-reviewed books, but that base has been sinking. Library purchases actually declined from 1980 to 1989, primarily because of cutbacks in federal funding. The situation hasn't improved much in the

1990s, because funding hasn't returned and also because of current thinking in library management. That is discussed near the end of this report.

Publishers haven't substantially cut back on publishing midlist titles. The number of new titles from the big trade houses continues to grow, lately at a rate faster than growth in book sales. Some might argue that the number of midlist books published every year has not grown as rapidly as it should, given the increasing size, prosperity and education of the American population and the rise in bookstore shelf space. But publishers haven't drastically "redlined" new titles. What midlist books are losing is market share.

The superstores and chains have greatly increased total the total bookstore shelf space devoted to midlist books. Simply getting titles stocked by small independent bookstores is a problem for midlist authors and for small and university publishers; the superstores centrally order at least a few copies of almost every trade title. The midlist books' main problem now is marketing---getting attention for their books.

Here is an outline of the report's main conclusions:

1) The fear that mainstream publishers are substantially reducing the number of midlist books they publish is unwarranted. Despite publishers' statements in recent years about decreasing the production of new titles, the new-title count continues to grow. Publishers plainly still find literary fiction and serious nonfiction worth publishing.

2) The main problem for midlist books is market share. Midlist book sales have declined as a percentage of total sales and, over the last ten years, in absolute numbers as well. Chains, superstores, and Internet booksellers have made an enormous range of midlist titles available, but without heavy marketing support, these books get lost. Attention in the chains and superstores often comes at a high price, and publishers are willing to pay it usually only in the case of obviously commercial books.

3) Independent booksellers promote their favorite titles for free, but their voice has gotten fainter. The dwindling of their numbers, and share of book sales, has hurt midlist books.

4) Publishers' marketing efforts for midlist books haven't kept pace with the proliferation of bookstore space or the rising sales of bestsellers. Publishers are looking for ways to make up for the diminishing role of independent book stores in selling midlist books.

5) Small and nonprofit presses play an increasingly important role as specialists in midlist publishing.

## Defining the Problem

Let's suppose there are two brands of books---midlist and bestseller. They compete for a finite quantity of book sales. Growth in total adult trade books sales has slowed to an estimated 1% a year in recent years. During that time, bestsellers have seen enormous increases in their sales, and sales of midlist and back-list titles have been squeezed.

The following tables illustrate the flattening of total adult hardcover trade book sales. The estimates come from the Book Industry Study Group, a clearinghouse for industry statistics supported by publishers, booksellers, distributors and other trade groups. The BISG began collecting data in 1972, when the book industry had just finished two decades of breakneck sales growth, but consistent figures are available only from 1982.

**Total trade book sales in units**

1982: 485.1 million
1983: 533.1 million
1984: 543.8 million
1985: 576.6 million
1986: 586.0 million
1987: 600.2 million
1988: 633.6 million
1989: 710.8 million
1990: 730.7 million
1991: 764.7 million
1992: 788.4 million
1993: 789.9 million
1994: 841.8 million
1995: 841.8 million
1996: 847.3 million
1997: 785.6 million

**Total adult trade book unit sales**

1982: 335.1 million
1983: 359.8 million
1984: 357.5 million
1985: 376.7 million
1986: 368.6 million
1987: 373.5 million
1988: 381.5 million
1989: 421.2 million
1990: 420.4 million
1991: 429.7 million
1992: 460.5 million
1993: 482.5 million
1994: 512.8 million
1995: 484.7 million
1996: 458.8 million
1997: 441.8 million

**Adult hardcover trade book unit sales**

1982: 160.9 million
1983: 176.3 million
1984: 166.4 million
1985: 188.9 million
1986: 183.9 million
1987: 196.4 million
1988: 192.9 million
1989: 220.7 million
1990: 215.3 million
1991: 222.1 million
1992: 239.2 million
1993: 254.8 million
1994: 267.7 million
1995: 249.6 million
1996: 235.4 million
1997: 225.8 million

Over the last thirty years, trade paperback sales have grown dramatically, but not by enough to offset the slowdown in total sales. And in recent years, adult trade paperback sales have been slowing down too.

**Adult trade paperback sales in books**

1982: 174.2 million
1983: 183.5 million

1984: 191.1 million
1985: 187.8 million
1986: 184.7 million
1987: 177.1 million
1988: 188.6 million
1989: 200.5 million
1990: 205.1 million
1991: 207.6 million
1992: 221.3 million
1993: 227.7 million
1994: 245.1 million
1995: 235.1 million
1996: 223.4 million
1997: 216.0 million

Sales even declined between 1994 and 1997. The BISG's economists attribute the sag in sales growth to the aging of the population, the decline of free time and disposable income, and competition from other media. Others blame less quantifiable factors, like the culture's having become less literary. Charles McGrath, editor of the *Sunday New York Times Book Review*, said, "We used to talk about books the way people talk about movies today." But whatever the reason, the slowing of unit sales growth means that at the moment authors, publishers, and booksellers are fighting to divide up a finite number of book purchases.

Within trade book sales, midlist books are losing ground. According to *Publishers Weekly* year-end figures, over the last thirty years unit sales of the 15 bestselling works in both fiction and nonfiction have grown from about 6 million in 1971 to about 8 million in 1976, to 17 million in 1986, and to 31 million in 1996. That means between 1986 and 1996, bestseller sales grew 82%. Total adult hardcover trade book sales grew 28% during the same period, and right now the rate of growth is at less than 1% a year. In 1986, hardcover bestsellers accounted for about 7% of total adult hardcover trade book sales. In 1996, the figure was about 13%.

These total sales figures also include older ("backlist") books. Their sales don't seem to be fluctuating much. Barnes & Noble says that sales of books published more than a year ago remain a steady portion of their sales---about 70% at superstores and 60% at mall stores. The bestsellers' gains probably haven't come at the expense of *Great Expectations* or *Moby Dick*.

Although the numbers aren’t precise, it seems clear that a small number of titles is eating up a larger and larger share of book sales. Midlist titles are selling fewer copies, and that, in turn, hurts their authors.

**The Number of Midlist Titles**

The *New York Times*, in an editorial on December 10, 1956, warned that, ”The tendency to ’play it safe’---especially with works of fiction---can be seen in the increasing number of books which are published with an eye to subsequent adaptation to another, more profitable medium. Is publishing then to become a mere subsidiary of Hollywood, Broadway and TV? And what will happen to the ’promising’ novel... the off-beat, irrepressible work with no ’market’ that can be predetermined?.... We need the ’worst-selling,’ experimental talents only because from their ranks may come the next generation’s Eliot or Hemingway.”

Such anxieties about the future of midlist books have appeared for decades in newspaper editorials, magazine articles, the Congressional Record, and monographs, such as Thomas Whiteside’s 1980 book *The Blockbuster Complex* and media critic Mark Crispin Miller’s more recent writings.

In the 1990s, several major publishers announced plans to cut their lists, although none did so as conspicuously as HarperCollins. Random House’s president and editor-in-chief Ann Godoff, Simon & Schuster’s publisher David Rosenthal and associate publisher Annik LaFarge, W.W. Norton & Co.’s vice-chairman Edwin Barber and editor-in-chief Starling Lawrence, and HarperCollins’s Jane Friedman all say their houses have tried to put a lid on title output. Simon & Schuster announced in 1997 a plan to trim to trim its total list to 600 titles from 650 the year before. Random House has modestly reduced the number of new titles from its ”little Random” imprint it published: 128 in 1993, 115 in 1994, 129 in 1995, 118 in 1996, and 114 in 1997.

All the editors and publishing executives I interviewed said they have decided not to publish more titles than they can support with marketing and publicity. As Norton’s Starling Lawrence put it, ”We decided we either had to publish fewer books or hire more publicists, or both.” Miller, Whiteside and other critics usually attribute publishers’ cutbacks to the influence of corporate ownership. But the vows to ’refocus’ have come from companies of all kinds---public corporations (Viacom Inc. and

News Corp.), private conglomerates (the Newhouse family's Advance Publications), and editor-owned private houses (Norton).

Nonetheless, mainstream publishers still seem to be producing as many midlist titles as ever. Midlist title output over the years has grown, not shrunk. The number of new titles published each year continues to grow. Most editors acknowledge that their lists of titles have grown more quickly than their sales volume, and that, even after cutbacks, title counts tend to creep back upward.

Three different kinds of evidence support the idea that the number of midlist titles is not, in fact, being cut back: aggregate industry-wide numbers; a close look at the lists of a few major publishers over time; and a cost-benefit analysis of publishing a midlist title. There are structural pressures on publishers to increase their title counts. Publishers with big staffs, offices, and overhead have to churn out a lot of titles. "The acquisitions editor is the superhero of the moment," said a recent report from the industry consulting company Market Partners International. "There is almost no house that doesn't reward, first and foremost, acquisitiveness as an end in itself. A shopaholic's delight!"

A more-titles strategy was famously the key to a turnaround at St. Martin's Press under the leadership of chairman Thomas McCormack. His premise applies at any publishing house: you only pay rent once. The marginal cost of adding a new title is very small, and it drops with each additional title. The publisher has already paid for office space and salaries---those costs don't go up with each new title. Some successful editors produce a high title count to spread the cost of their own salaries across as many books as possible. St. Martin's title count has come down substantially from its level under McCormack, but the house still publishes more than twice as many titles as it did before his arrival.

In 1956, Alfred Knopf reported in his semi-annual letter to book buyers that 12,589 new titles, a record number, were published in the U.S. (He didn't say where he got that figure.) According to Gary Ink, the *Publishers Weekly* librarian who compiles annual new-title counts for the industry publisher R.R. Bowker, the number of new titles grew at an average rate of 2.5% from 1880 to 1960, and it has soared since the Second World War. The number of new titles introduced each year doubled during the 1960s, he says. It hasn't climbed as steeply since then, but, except for a brief dip in the late 1980s, the total number of new titles continues to climb.

**New hardcover titles in sample years**

1966: 17,417
1976: 23,812
1982: 25,701
1986: 28,588
1990: 25,529
1995: 31,152
1996: 32,447

**New trade paperback titles, excluding mass-market books**

1966: 4,402
1976: 8,540
1982: 10,537
1986: 13,337
1990: 11,520
1995: 18,816
1996: 22,854

**Total new hardcover and trade paperback titles**

1966: 21,819
1976: 32,352
1982: 36,238
1986: 41,925
1990: 37,049
1995: 49,968
1996: 55,301

Paul Aiken, the Authors Guild's executive director, argues that new title growth hasn't "kept pace with our economic and cultural growth." He points out that over the last twenty years annual new hardcover trade title growth has dropped from the 1880-1960 historical norm of 2.5% a year to a rate of about 1.75% a year---a 30% drop. If you count all new titles, including trade paperback originals, the new title count has grown during the last twenty year by about 2.3% a year, or 8% below the historical norm.

Nonetheless, new title output is growing. In the 1990s, it has been growing faster than unit sales. Since 1982, annual new-title output has risen by 53%, and adult trade unit sales has increased 32%. From 1990 to 1997, the number of new trade titles rose over 30%, while annual unit sales increased just 8%.

Of course, these title counts include many kinds of books: textbooks, a few children's books, non-trade books, and books of little cultural importance. In 1996, the *Sunday New York Times Book Revie* reviewed only 1,800 and *Publishers Weekl* reviewed only 6,300 of the 55,000 new books published.

According to Albert Simmonds, former director of standards and development for Bowker, which also assigns "international standard book numbers" (ISBN codes) to all new books, and Donald Riseborough, manager of the ISBN agency, the increase in the number of new titles is attributable primarily to the big, mainstream trade houses. Simmonds told me he has been surprised by the continuing surge in new titles. "For years, I have been expecting the title count to go down, but the figures don't indicate that there are fewer new books published," he said. "It isn't even leveling off---it just keeps going up."

Approaching the question from specific cases yields similar conclusions. Here again precise figures are difficult to come by, but editors at the major publishing houses, including Random House, Simon & Schuster, Viking-Penguin, Time Warner Inc.'s Little, Brown & Co., and HarperCollins, confirm that their lists of titles have grown faster than book sales over the last ten, twenty, or even thirty years. Closer looks at catalogs from a few high-profile publishers seem to confirm their assertions that they are turning out as much literary fiction and serious nonfiction as ever. (That isn't to say that there aren't fads in midlist publishing, just as there are in other kinds of books: foreign-policy books are hard to sell, right now, for example, while books about science and medicine are in demand.)

This report concentrates on four imprints: Simon & Schuster, Random House ("little Random"), Knopf, and HarperCollins (formerly Harper & Row). I counted the total number of midlist books in sample catalogs over a thirty-year period. Excluded from the midlist category were celebrity biographies or autobiographies, books by nonwriters, thrillers or genre fiction, any how-to or self-help book, spiritual books, books by authors identified as "bestselling" in the catalog (even if the claim seemed dubious), and humor books. Included as midlist were scholarly or reported nonfiction, literary novels, first novels, works of theology (like Paul Tillich's *My Search for Absolutes*), "wickedly funny" novels with some literary aspirations, and biographies of politicians.

The results were consistent and do not support the idea of a meaningful reduction in these publishers' commitment to bringing out midlist titles.

At Simon & Schuster the number of midlist titles in the 1997 fall catalogue was 24, compared to 25 in the fall of 1987, 18 in 1977, and 17 in 1967. But between 1987 and 1997 Simon & Schuster acquired the Free Press and Scribner imprints, which publish many midlist books: 30 and 28, respectively, in 1997. Simon & Schuster says that since acquiring Free Press and Scribner it has tried to shift its serious and literary titles to those imprints. The company also added a third catalogue in 1988, so the fall catalogue represented a smaller portion of its new titles in the 1997 year than the fall catalogues had in previous years.

An example will convey the general impression that arises from going through old catalogues, which is that trade publishing is no less serious today than it used to be. Knopf's midlist roster in its fall list grew to 53 books in 1998 from 42 in 1989, 27 in 1977, 26 in 1967, and 4 in 1957 (including translations). And Knopf's 1998 catalog was one of three a year instead of two. Knopf's lead title from 1957 was *The Lady,* by the Western novelist Conrad Richter, who won a Pulitzer in 1951. As Alfred Knopf described it in the catalog: "Its scene is New Mexico, a hundred years ago; its heroine, Dona Ellen, is a great beauty born to wealth and position---a woman at once gentle and arrogant, a paradox of weakness and strength, who clashes with Snell Beasley, a man of money, forceful, coldly ambitious, and a master of legal intrigue." Second on the list was the latest from British novelist Angela Thirkell, who turned out over 30 popular novels about the English gentry and their cute children, described only as a "hardy perennial."

The Random House imprint's fall 1998 catalog, one of three for the year, included 38 midlist books out of 58; in 1969 (the first year available) the fall catalog included 47 midlist books out of 80, but there were only two catalogues that year.

HarperCollins in the 1990s best fits the model of a house that is red-lining midlist books. Rupert Murdoch, whose News Corp. acquired the house in 1987, pursues a lowbrow strategy much more than other media moguls. News Corp.'s sale of the Basic imprint substantially lowered the number of midlist books HarperCollins published.

HarperCollins's 1998 fall catalog included just 13 midlist titles out of 38 books under the main HarperCollins imprint, along with 6 midlist books under its new HarperFlamingo imprint and 4 under other new imprints. (HarperCollins's latest plan is to launch several niche imprints.) Basic, which used to publish most of HarperCollins's midlist books, is still distributed by HarperCollins but is now owned by Perseus Books. Basic is not included in the total.

In 1988, the year after News Corp. acquired the company, which was then known as Harper & Row, its fall catalogue included 38 midlist titles, and Basic Books published an additional 20 (the whole Basic Books list). In 1978, the earliest year for which a catalogue was available, the fall list was one of only two that year. Harper & Row published 36 midlist books, and Basic Books published 15.

Plainly, since its acquisition by News Corp., the company has pulled away from midlist publishing. Even without Basic Books, though, HarperCollins publishes almost as many midlist titles today as it did in 1978, according to my count---69, down from 72. Jane Friedman, its new chief executive, says she intends to increase its midlist publishing again. The new HarperFlamingo imprint features predominantly literary efforts. Friedman says the company will continue to publish serious nonfiction and literary fiction---not out of philanthropy, but because the company believes it can be profitable. Several agents told me HarperCollins editors continue to bid aggressively for midlist fiction and nonfiction.

**The Profitability of Midlist Publishing**

Most publishers agree that at the right house, for the right advance, midlist books can make money and be an important part of a healthy list. Their main virtue for publishers is that they don't have the huge up-front costs that come with obviously commercial books. The bidding for a bestselling writer can drive the price of the royalty advance to such a height that the publisher effectively cedes much of the profit to the author and agent. In fact, Stephen King's latest deal with Simon & Schuster is literally a profit-sharing partnership, rather than a conventional advance-and-royalty contract. The low cost of midlist books for publishers is exactly what makes it difficult for midlist authors to eke out a living, but it means that publishers will keep bringing them out.

Publishers' biggest payoffs come from books acquired at midlist prices that achieve blockbuster sales. The rewards in these cases can be enormous. Charles Frazier's novel *Cold Mountain*, Frank McCourt's memoir *Angela's Ashes,* Sebastian Junger's *The Perfect Storm*, Jonathan Harr's *A Civil Action*, Jon Krakauer's *Into The Wild*, and plenty of other midlist books that became bestsellers have recently drawn attention to the midlist's potential to generate profit. All received advances in the neighborhood of $100,000---generous for a truly midlist book, but certainly much less than an anticipated bestseller would fetch. Grove/Atlantic Inc. earned back its advance for *Cold Mountain* from selling subsidiary and foreign rights before publication, which is not uncommon in successful midlist publishing.

But even midlist books with small sales can make money for most publishers, if handled appropriately, as a hypothetical test case will demonstrate.

Here are the unavoidable costs associated with publishing a book. Roughly 50% of the cover price of a $30 hardcover book, or $15, goes to wholesalers and retailers for selling the book. The printing cost for a $30 hardcover book tends to be a little less than 10% of its cover price, or $2.00 to $2.50. (Manufacturing costs are lower per book for big print runs; the number of pages also changes the cost.) Distribution costs from 50 cents to $2.50 a copy. A big publisher with its own warehouses and distribution staff can achieve economies through volume; others must pay outside distributors.

The author receives roughly 10% of the book's price in royalties, or $3.00. The percentage escalates to 12.5% and 15% as more copies are sold, and it can be inflated by an "unearned" advance. Small presses and university presses sometimes pay royalties based on net income from sales instead of retail price, which lowers the payments to the author but boosts the publisher's take. In this case, let's assume a 10% royalty rate.

In all, these unavoidable costs, which every publisher faces on every book, take up a maximum of $23 of the $30 price. That means the publisher brings in at least $7 a book---and possibly as much as $9 or $10 a book---on a $30 hardcover.

Let's add to the publisher's $7 a book the revenue from future paperback sales. A hardcover publisher receives about 7% of the paperback cover price, or about $1. (Another roughly 7% of paperback sales passes to the author as royalties). The publisher may have retained foreign, book club, and other subsidiary rights as well, which add further income. Paperback and subsidiary rights are the salvation of many midlist hardcover books.

Suppose our $30 midlist book sells 5,000 copies (net)---somewhat less than what Don DeLillo's or Margaret Atwood's earliest books sold, according to their editors. That means the publisher gets $35,000 in hardcover revenue after unavoidable costs. Let's say paperback sales bring in $10,000 and other rights bring in an additional $10,000. (If these sales don't come in, the publisher will have trouble making money on the book.) The publisher's net revenue after initial costs for this modest seller is about $55,000. That estimate would rise or decline with sales volume---2,000 copies would produce perhaps $22,000, for example, while 10,000 copies might produce $110,000.

Three factors can cut into a book's profit: 1) the possibility of an "unearned" advance;î 2) over-shipping and returns; and 3) marketing and promotional expenses. Lately, all three have risen sharply. Here are the rough cost-breakdowns.

The return rate for new hardcover books historically has averaged below 30%, although it has gone as high as 35% in recent years. At 30%, which means printing 1,500 extra copies at $2.50 apiece, overprinting followed by returns will cost a total of $3,750. (Gross sales of 6,500 copies; net sales of 5,000.) Returned copies are often pulped, because it is cheaper to print new ones if needed than to warehouse old copies. The distribution cost associated with returned copies is hard to guess, but a generous estimate would be another $3,750. Therefore, paying for 30% extra unsold copies still leaves a profit of $47,500.

Depending on the terms of the contract, this book might "earn out" an advance of about $25,000. Of that, $15,000 comes from hardcover sales and $10,000 comes from paperback sales. (The hardcover publisher receives about $20,000 from the paperback sales, and passes half of it on to the author as royalties.) An advance at that level or less is covered by the royalties already factored into the unavoidable costs. (Obviously, a $25,000 advance will not support an author through the writing of a book---that's a separate problem.) Any extra advance cuts into the profitability of the book. A book with hardcover sales as low as 5,000 copies may not even re-appear in paperback. If the publisher of this book paid a six-figure advance and the subsidiary rights sales were modest, the publisher would lose money.

Write-offs for "unearned advances" get a lot of ink. "Unearned advance" is a publisher's term for the amount that the house paid the author as an advance that turns out to exceed the royalties from actual sales. Of course, the author is paid the advance for delivering a finished manuscript, not for selling books. The advance is only truly unearned if the author fails to deliver the manuscript, and then the publisher often seeks repayment. Publishers never get back the part of the advance "unearned" by sales of a completed work, and so the excess amounts to an increase in the author's share of a book's proceeds, as if the royalty rate were higher than 15%. An unearned advance isn't necessarily an indication that a book was unprofitable for the publisher.

Sometimes a publisher will record an advance as unearned for tax reasons. A company publishing both the hardcover and paperback editions of a book may decide to treat the advance, for tax purposes, purely as a pre-payment of hardcover royalties, rather than of paperback royalties as well. That enables the house to record a loss as soon as hardcover sales fail to cover the advance, even though future royalties from paperback sales may cover it. This tax-accounting maneuver doesn't change payments to authors---the publisher still withholds paperback royalties from the author until the whole advance is covered.

The final key variable cost is marketing. Traditionally, the rule of thumb for marketing and publicity budgets was $1 a book for each copy in the first print run. That would be about $5,000 for our 5,000-copy midlist book. Much of that $5,000 went to postage and promotional and review copies; the remainder covered a mixture of advertisements and authors' appearances. (In general, ads with reviewers' quotes sell fiction, while authors' appearances work well for nonfiction.)

The "buck-a-book" standard is applied more and more rarely. Editors and publicists say the cost of effective marketing has risen precipitously. Ira Silverberg, a former editor at Grove/Atlantic as well as a former publicist, says that the house now devotes as much as $7 a copy to the promotion of some books. Throughout publishing, the spread between well-supported and barely-supported titles has become enormous: some receive $7 a book, and this leaves others with virtually nothing.

Part of the reason for the rise in marketing costs is that publishers sometimes allocate to each book a portion of company-wide marketing expenses that have themselves risen, like catalog expenses, or even, occasionally, sales conference expenses. For example, 4% of the cost of a 25-book catalog might be considered as marketing expense for each title. (It is difficult for agents to win guarantees about marketing money in book contracts because they can't control the accounting practices; of course, publishers hate to agree to marketing commitments anyway, because who knows what the final manuscript and the sales climate will look like.) But the primary reason for the jump in marketing expenses is the rise of the chains and superstores. Marketing costs now include charges for placement in book stores, for special in-store posters and displays, or for newspaper advertisements ostensibly for bookstores that also feature particular titles. (Publishers pay part of the cost of the ubiquitous Barnes &

Noble newspaper ads that tout new books.) Only a tiny fraction, well below 10%, of new titles receive such support.

With a traditional $5,000 marketing budget, no unearned advance, and $7,500 spent on returned copies, our hypothetical midlist title generates $42,500. To recap:

**A Sample Midlist Book Budget**

Revenue:
5,000 hardcover copies at $30, or $15 wholesale, for $75,000
Rights revenue:  $20,000 from paperback sales (before paying the author's royalty on paperback sales), plus $10,000 in other rights.
*Publisher's total revenue:* $105,000

Unavoidable costs:
Author's Advance and Royalties: $25,000 ($15,000 from hardcover sales, plus $10,000 from splitting the paper-back rights royalties)
Printing costs: $12,500
Distribution: $12,500
*Total of unavoidable costs:* $50,000

Avoidable or discretionary expenses:
Returns: $7,500
Marketing: $5,000
Unearned Advance: $0
*Total variable costs:* $12,500

Contribution to overhead and profit: $42,500

That $42,500 contributes to the cost of running the publisher's office, to paying editors and other staff, and also to the bottom line.

Editors generally must fill out profit-and-loss statements for books that include an item called "overhead," which causes some confusion. Publishers (somewhat arbitrarily) charge each book something like 14% of hardcover wholesale revenue, which in this case would be $10,750. (The percentage varies widely from house to house, but it is usually between 10% and 20%.) That figure doesn't necessarily reflect with any accuracy the amount of editorial time, office space, or other expenses that was devoted to the book---costs aren't a fixed percentage of sales.

For the moment let's take that arbitrary overhead figure at face value. Deducting 14% off the top from our hypothetical midlist book budget leaves a modest surplus of $35,000.

Midlist publishing isn't a cash cow, but it still can be profitable. Large houses need midlist books to balance the risks of their big bets on blockbusters. And midlist books are the mainstay of small houses.

The projected sales level below which publishers won't take on a book depends on the publisher's scale and focus. Ann Godoff says 5,000 is probably close to the minimum at Random House. Morgan Entrekin of Grove/Atlantic says his house can go as low as 4,000. Elisabeth Sifton at Farrar, Straus & Giroux says the house will publish titles with hardcover first printings even lower than that, especially books of poetry or art. University, small, and nonprofit presses will sometimes publish print runs below 2,000 copies.

Publishing small books has always been the price of trying to hit a surprise blockbuster or a classic. Literary fiction and serious nonfiction that lasts can be lucrative for a publisher for decades, until the copyright expires. For example, Roger Straus says Farrar, Straus is still making money from T. S. Eliot's work. For decades, Eugene O'Neill's *A Long Day's Journey Into Night* helped support Yale University Press. Knopf bought the rights to Albert Camus' *The Stranger* fifty years ago for $350 and then sold 150,000 copies a year for decades.

Also, publishing critically recognized midlist books has a practical value to imprints that specialize in serious and literary work, because it boosts an imprint's credibility, and makes it easier to get reviewers' and buyers' attention for other books. Entrekin called this "symbolic equity." Of course, publishing John Barth or Thomas Pynchon wouldn't do much for HarperCollins's Judith Regan Books---that isn't its niche. But critically acclaimed authors certainly add to the luster of Scribner or Little, Brown.

Finally, there is the possibility of a hit, or at least a classic, in an author's later work. Books like DeLillo's *White Noise* or *Underworld*, or Atwood's *Handmaid's Tale* become annuities for their publishers, bringing in long-term revenue that compensates for their authors' earlier money-losing efforts.

**Is Greed Killing Midlist Books?**

One theory about the decline of midlist publishing turns on the proposition that the publishers of the 1950s and 1960s were less interested in making money than publishers today; publishers then behaved like patrons of the arts, but publishers today are financial types. As a result, the theory goes, the industry is sacrificing midlist books in favor of big profits. ”Books have gotten worse: worse in every way,” Mark Crispin Miller summarily concluded in the New Press’ 1997 essay collection *Conglomerates and the Media*.

Publishing’s most articulate critics, such as Whiteside, Miller and New Press editor Andre Schiffrin, usually trace the industry’s decline to the 1959 initial public stock offering by Bennett Cerf’s Random House. Until then, most publishing houses were privately owned by wealthy families. The following year, Random House acquired Knopf, and that began a period of consolidation. Through the 1970s, mergers and public offerings in the industry proliferated. The baby boom led to rapid growth in educational and, later, trade book publishing, which gave publishers the opportunity to sell shares to the public or merge with public companies.

In 1966, Random House was sold to the electronics company RCA. By 1978, most of the other big publishing houses had become part of large media companies that did more than just publish books, and the Authors Guild had filed its first complaint to the Federal Trade Commission alleging that consolidation restricted competition in the market for manuscripts. Only a few large, independently owned, pure book-publishing companies remained, including W.W. Norton, Farrar, Straus & Giroux, and Houghton Mifflin. Today Farrar, Straus is a unit of the closely held German company Von Holtzbrinck Group, but smaller literary houses like Walker Books and Grove/Atlantic Monthly Press have become more prominent. (Both of the latter presses are regarded highly in the industry and have launched a few recent midlist success stories.)

There are three versions of the greed theory. One, put forth occasionally by Schiffrin, suggests the publishers of today are both greedy and short-sighted. Chasing unoriginal blockbusters and simple-minded celebrity books, they pass up opportunities to make more money in the long run by publishing better books. Schiffren recently wrote that, ”The irony is that all these sacrifices were in vain....Maximizing profits by cutting out literary merit just doesn't work.” Another version takes the opposite position: that publishers won’t publish midlist books because they can’t deliver big enough profits. And a third version holds that high overhead costs at big publishers rule out small books (and often cut profits too).

Even in the media conglomerate age, big publishers make single-digit profit margins, according to executives, investment bankers and industry analysts. Anthea Disney, the News Corp. executive in charge of HarperCollins, told Ken Auletta of The New Yorker, "If we could make 8%, I'd be Queen of the May." Stephanie Oda, of the industry consulting group Open Book Publishing (Subtext), estimates that average profit margins for adult trade book publishing operations have decreased to about 5% in the last three years, from about 8% before that. She blames three factors: returns, advances, and marketing costs at the chains. Bobbi Mark, of the consulting group Market Partners, says profit margins vary widely from year to year and from imprint to imprint. She estimates that Random House's profit margin in recent years has been well below 5%, and that Bertelsmann's Bantam Doubleday Dell is at the high end of the spectrum, near 10%. (Bertelsmann acquired Random House partly in the hope that combining its operations with Bantam Doubleday's can improve its results.)

Both Oda and Mark believe that conglomerate owners like Viacom, News Corp., Advance Publications, and Bertelsmann probably have lower profit margins in the book business than the successful publishers of the 1960 and 1970s did. Book sales are growing very slowly, bidding for manuscripts is more competitive than it used to be, and the terms of sales contracts with retailers are less favorable to publishers.

Even in the old days, profits probably varied widely. A 1966 survey by the accounting firm Ernst & Ernst for the American Association of Publishers reported that average profit margins for general book publishers had fluctuated over the previous ten years from a low of 4% to a high of 6%, with a few houses reaching 15%. The survey covered all kinds of books, not just adult trade books. And, unlike contemporary estimates, Ernst & Ernst's reckoning of profit margin didn't include subsidiary rights income, which the survey reported as an additional 4% to 17% of net sales revenue, depending on the house. Subsidiary rights income has become a much more important source of revenue since then, and the Subtext and Market Partners estimates include it.

Book publishing shows about the profit level of other slow-growth industries, like grocery stores, says Stephanie Oda. Publishing companies put up for sale still find buyers, but they aren't necessarily the ones who were interested during the 1960s and 1970s. Buying U.S. book publishers lately seems most attractive to European publishing companies such as Pearson, Von Holtzbrinck, and Bertelsmann.

The idea that overhead is killing midlist titles---that the expense of New York book editors' generous salaries, fancy offices, and expense-account lunches at Michael's can be covered only by their house's restricting themselves to the broadest and shallowest titles---ignores the reality that being big brings a publisher more savings than expenses. Size lowers such costs as back-office administration, book distribution, and printing. For example, the printer R.R. Donnelly & Sons Co. charges the largest publishers 40% less per book than it charges smaller companies such as Grove/Atlantic or Walker. A 40% decrease in printing costs can amount to a 6- or 7- percentage-point increase in profit margin. Size also improves a publisher's bargaining power in negotiating with booksellers over issues like discount rates and who pays for shipping. (One force driving consolidation is that publishers need to grow to maintain their bargaining power as the chains grow.)

Privately owned publishers face serious capital constraints. They must frequently worry about whether they have enough cash coming in to pay the bills. Big companies usually have plenty of cash on hand, and they can borrow money much more cheaply than small publishers---sometimes at a 1- to 2-percentage-points-lower interest rate.

For authors, corporate ownership may mean bigger advances, not stingier ones. Hope springs eternal when editors are spending a corporation's money, as owner-editors such as FSG's Roger Straus (who recently sold his company) and Grove/Atlantic's Morgan Entrekin are quick to point out.

And editors' salaries and expenses at the big houses are not very high. Lunches at Michael's seem limited to a small number of editors at the high ranks. Associate editors at Random House, Simon & Schuster, and other big New York houses often make less than $40,000 a year. Entry-level editing positions still pay less than receptionist's jobs elsewhere. "We do a lot of executive searches," says Market Partners' Bobbi Mark, "There are a lot of editors killing themselves for less than $35,000 a year, working long hours in cramped offices."

The cost of running a big company seems to create pressure to publish more books, not fewer. The New York Times recently reported that the New York publishing industry's payroll is declining while the number of titles increases. According to the Equal Employment Opportunity Commission, the number of "professionals" in publishing in New York has slipped by 16%, to 2,714 from 3,218, within the last ten years. "At the same time, the number of books published in the United States has surged," according to *Times* reporter Doreen Carvajal, "and so have the complaints about the quality of books, carefully bound for posterity with dangling modifiers, typographical errors and misspelled words."

The most valid concern about big publishing houses for a midlist author is often overlooked: the way in which they divide the books they publish into categories, one that gets promoted and one that doesn't. Perhaps the most important factor in deciding the fate of a midlist title at a mainstream publisher is the allocation of marketing support within the house.

If publishers simply increase the number of titles they publish, it isn't necessarily better for midlist authors. Stretching marketing and publicity budgets across a big list makes the orphaning of books more likely. Authors' complaints that their books were under-published and could have sold better sound like sour grapes (authors and agents believe it happens routinely; editors and publishers say it happens almost never) but often the authors are right. Guessing the optimal level of marketing for each of a hundred titles is an impossible task.

These behind-the-scenes decisions are much more important than people outside of publishing realize. Editors describe getting marketing support in-house as the biggest hurdle a book faces once it is under contract. Agents often assert that a big advance assures a big marketing budget because editors are reluctant to admit overpaying---but that doesn't help midlist books, because they don't get big advances. Doing well in the internal competition to get attention and marketing money is especially tough for a book whose editor is low in seniority. Even high-ranking editors sometimes have less than a minute in front of a crowd at a seasonal conference to pitch a title's merits to their house's sales staff. The titles on each list are competing for a finite quantity of attention and money. Publishers and editors have an incentive to put their clout behind the titles with the strongest commercial prospects. Simon & Schuster, for example, introduced no other new titles the month it published Stephen King's latest novel. What's more, publishers don't decide alone which titles to support: bookstore chains play an essential role, too.

**Authors, Advances and Agents**

Editors and authors, predictably, differ in the nature of their gripes about royalty advances. Some editors blame high advances for the difficulty of publishing midlist books well. Elisabeth Sifton, an editor at Farrar, Straus & Giroux and proponent of this theory, points out that Willa Cather found the idea of receiving advances insulting. Peter Osnos, who started PublicAffairs Press after leaving Times

Books, also argues that advances are prohibitively expensive. His company plans to try to get other organizations to support its authors. (Osnos hopes to set up a clearinghouse that will funnel grants to authors who already have book contracts.) Most authors of midlist books, on the other hand, can't afford to write their books on the money from their advances.

There seems never to have been a time when publishers would give authors as much money as they needed to write. Roger Straus at Farrar, Straus & Giroux; Michael Korda at Simon & Schuster; Lawrence Hughes, now of Hearst; and Jason Epstein of Random House, among other publishing veterans, strongly deny that publishers subsidized authors as a matter of policy. "We published some books more because we liked them, and some books just to make money, but no one ever paid an advance that they didn't think the sales potential justified," according to Hughes, the long-time owner of William Morrow & Co. before Hearst acquired the company.

The principal editors of yore one hears cited for their generosity---people like Bennett Cerf and Alfred Knopf---succeeded in generating at least enough profit to expand their businesses and sell them, either to the public or to publicly owned companies. Today, Walker's publisher, George Gibson, Grove/Atlantic's Morgan Entrekin, and other editors running private publishing companies say they are more careful with their money than big conglomerates, not less.

What is indisputable is that finding a way for authors to support themselves while they write is one of the biggest challenges in midlist publishing. Literary fiction and serious nonfiction rarely set off the bidding wars that drive up advances. The problem is insufficient money for the authors of serious, literary, and intellectual works---not too much money.

The best possible outcome for a midlist author, short of an astounding success like *Cold Mountain*, would be a success like David Foster Wallace's novel *Infinite Jest*. It won extraordinary critical acclaim, took on cult status among young intellectuals, and sold 30,000 copies in hardcover, followed by 60,000 in paperback. Wallace had received an advance of just under $100,000 from Little, Brown, which is unusually high for a midlist book. That came to about $85,000, after his agent's 15% cut had been deducted, and it took him five years to write the book. (Wallace supports himself by teaching). Royalties probably exceeded the advance--- I'd estimate them at $150,000 or so ($127,500 after the agent's share). But there were few sales of foreign rights, probably because of the book's 1,100-page length: foreign publishers pay translators by the page. Infinite Jest probably earned Wallace around $25,000 a year---and was an extraordinary success. There is no guarantee he will do well next time. As the Authors Guild's Paul Aiken puts it, Powerball offers better odds than writing a literary novel.

For most midlist authors, a very successful book sells 10,000 hardcover copies and 20,000 paperback copies within the first two years, plus modest foreign and other subsidiary rights sales. That means earnings of $50,000 to $120,000 in royalties, before the agent's commission, which are spread out over the years it has taken to write the book, and must cover research expenses as well.

Writing books is a losing proposition financially for most writers. Serious authorship is not now and has never been self-supporting, except in a rare handful of cases. This situation probably hasn't gotten worse over time---in some ways, it may even have improved. Publishers have more to spend, and authors may have become more financially sophisticated than they used to be.

The power of agents in book publishing seems to be rising. When it became possible for publishers to make enormous profits from a few books, agents of star authors gained status as well. ”There are more publishers chasing authors,” says Virginia Barber. ”A well-known author is the closest thing a publisher has to a brand name.” The agent's commission, which varies from 10% to 15%, is usually a good deal for authors because you need an agent to get in the door at the big commercial publishers (Some editors even send unrepresented authors to agents). The increasing importance of subsidiary rights, the handling of which demands sophistication---sometimes several different continents and media are involved---has also enhanced the role of agents. In 1974, Random House's standard contract was 4 pages long; today it is 11 pages. Morton Janklow, whose clients have included Ronald Reagan and the Pope, is often cited as having set off the agent's ascendance through his promotion of blockbuster novelists like Judith Krantz. Amanda Urban at ICM is famous for her success with big-name literary authors.

The rise of agents has helped loosen the direct ties between authors and their editors. Writers seem to have longer-term relationships with agents than with editors or publishers, partly because publishers have cut back on in-house editing to save money. In turn, agents' growing role has also made author-editor relationships more volatile. That is the price of the higher advances and better terms that agents obtain by staging auctions and encouraging authors to shop around.

Still, the number of new titles published each year suggests that when publishers abandon their authors, it is to make room for new ones. When you have no track record, anything can seem possible. ”Know that it is the first novels that are drawing the crazy advances,” says Sarah Bershtell, editor at Von Holtzbrinck’s Metropolitan Books. Conversely, Charles McGrath, the *New York Times Book Review’s* editor, notes that midlist authors well into their careers suffer from ”the computer problem,” by which he means that chain booksellers have technology that makes records of an author’s previous sales readily accessible. Low-selling authors can no longer find a new publisher easily, because their track record is well known. And even within a publishing house, an author’s mediocre sales history can make it harder for a loyal editor to push the next book.

## Returns, Manufacturing and Print-on-Demand

Another factor often blamed for the crisis in midlist publishing is the recent jump in returns of unsold books to publishers. Of the three rising costs pinching publishers in the 1990s---advances, returns and marketing---returns have received by far the most attention. But the returns crisis appears to have run its course. Returns for 1997 and 1998 came in at a ”normal” rate of around 30% (which is up 10% from 30 years ago). The financial impact of the increase in returns was exaggerated, in any case. The cost of returns is really the penalty for printing and shipping too many books, and over the last thirty years manufacturing costs have declined dramatically as a portion of publishers’ expenses---from about 37% in 1966 to about 15% today. It is becoming affordable to print-to-order single copies of a book, which raises the possibility of eliminating over-shipping all together.

In 1996, returns rose to over 35% for new adult hardcover trade books, up from a recent average of below 30%, and from about 32% the previous year. Some big publishers got back nearly 40% of the new hardcover books they shipped in 1996.

The main reason for the jump was the breakneck expansion of the superstore chains and discounters. Publishers were yielding to the temptation to overestimate their titles’ sales potential---especially when the authors had been paid a big royalty advance. In the past, retailers’ orders were the brake on the volume of books printed and shipped, but in this instance the big booksellers over-ordered because they were still adjusting to the inventory requirements of their superstores. Retail bookshelf space has grown exponentially in the 1990s, but publishers were slow to recognize that ”the consumer dollar" wasn't growing at the same pace---or such is the conclusion of Jean Srnecz, vice-president of merchandising at the distribution giant Baker & Taylor Books, who chaired an industry committee formed to study the returns problem. Mass merchandisers like Wal-Mart and Costco, which have acres of cheap space and little experience in wholesale book buying, have been especially willing to overstock, and their return rates routinely run to 40%.

A less publicized factor behind the uptick in returns was that publishers had begun paying the bookstore chains to stock certain titles in large quantities. That money, which can amount to a dollar a copy and is officially a promotional subsidy, further eroded the discipline in print runs by giving booksellers a financial incentive to place unrealistic orders.

The chains and superstores have developed the ability to order, pull and return books more quickly and effectively than independents. The result, to paraphrase Calvin Trillin, is that the shelf life of midlist books compares to those of radicchio and active culture yogurt. Publishers had been in the habit of pushing as many books into the sales channel as possible; in the age of the chains that means higher returns. Now, publishers and big booksellers agree they are going to be more disciplined about ordering. "We don't make money shipping back returns, and the costs in terms of the sheer labor of boxing them up and sending them back is really quite extraordinary," Barnes & Noble's head of publisher relations, Patricia Bostelman, said.

Publishers and booksellers seem to have learned their lessons from the high-returns days. According to the BISG, the returns rate for 1997 shipments returned to normal, at or below 30%. Barnes & Noble and Borders say that their stores' return rates for new books shipped in 1997 was around 30%. Independent booksellers generally maintain returns rates of about 20%, which is well below the industry average.

The 5% spike in returns undeniably hurt publishers' profits, but returns have never been important enough to cause fundamental economic trouble. For our hypothetical 5,000-copy seller, 30% returns cost the publisher less than $7,500. Another 5% is just $1,250 more. And these estimates are probably on the high side. Extra hardcover books often cost publishers less than $2.50 each, including shipping, to get into the stores.

Another misconception is that publishers might one day unilaterally discontinue their long-standing free-returns policy---a notion floated by Ken Auletta in a 1997 *New Yorker* story about the industry. The returns policy is not just a quaint Depression-era tradition maintained out of sympathy for cash-strapped stores. It is a provision of the sales contracts between booksellers and retailers, negotiated along with who pays for warehousing and shipping costs, the size of the wholesale discount, and so on. Publishers, whose staffs have read their books, are in a much better position than retailers to predict sales, while bookstores usually have to take the risk of stocking titles sight unseen. Under the circumstances, the right to return for a refund makes sense.

Here is how the returns policy works: The bill for a book is due 90 days after shipping. This allows a bookstore to send back inventory instead of a check. Publishers, whose flexibility depends on their cash flow and the credit-worthiness of the bookstore, sometimes will extend credit to keep books on the shelves. Store owners say that cash-strapped HarperCollins sometimes presses to get its bills paid by the end of a quarter, for example, and no publishers relaxed deadlines for the Crown Books discount chain as it teetered toward filing for bankruptcy protection last year. Likewise, publishers are reluctant to extend credit to struggling independent bookstores that might not be able to pay them back, or might go under.

Most publishers offer booksellers the option of a slightly steeper discount if they purchase non-returnable books. In Houghton Mifflin's contracts, for example, retailers who buy without the right to return receive a 3% to 6% steeper discount than those who buy with the right to return, but few retailers take this discount because it is so small. What's more, publishers offer advertising and marketing subsidies only to stores that buy with the right to return: without the possibility of returns, publishers would have less incentive to see that books got out the door to consumers.

What actually determines the terms of bookseller-publisher agreements, regarding returns and everything else, is the relative bargaining power of each side. Both publishers and retailers have consolidated, at least in part in order to gain market share, and therefore leverage in negotiations. When Barnes & Noble controlled more than 25% of the bookstore market, in 1998, and the biggest publishers controlled less than 15% of the book market, it had the upper hand. Richard Snyder, former president of Simon & Schuster, said he recalls that, when booksellers first put together chains of ten stores, publishers screamed about "unfair leverage." When publishers consolidated, they gained more power. Bertelsmann's acquisition of Random House has given it more clout in bargaining with the chains, which in turn will help it improve the terms of its sales contracts. Before the acquisition, for example, Bertelsmann's Bantam Doubleday Dell offered retailers "free freight" on certain categories of book purchases that Random House did not.

Over the long run, the cost of returns has gone down because manufacturing books has become much cheaper. The technological advances in book manufacturing since 1966 have been vast. Computers were first introduced into the composition process in the 1970s, which made manufacturing cheaper and diminished the cost advantage of large-volume printings. Today, publishers and editors who specialize in midlist books, like Walker's George Gibson, say that they see little cost savings from large printings for books that aren't guaranteed blockbusters. Gibson told me he can reprint a book in less than two weeks. Walker's book *Longitude*, by Dava Sobel, which caught fire and became a best seller, had an initial print run of only 10,000 copies. Walker ordered new printings as its supplies ran low, avoiding the risk of big returns and giving the book time to catch on.

Oversized first printings persist because massive print-runs are important to the marketing of potential blockbusters. Publishers want plenty of copies in stores to coincide with their marketing campaigns, which are usually designed to be short and intense. The in-store promotions publishers pay for at the chains are sometimes as short as two weeks, which means there have to be plenty of books on hand. What's more, large quantities of a book are a precondition of prominent display. Chain-store merchandising policies require that all books displayed on tables be in stacks, for aesthetic reasons and to minimize trips to the stock room. Big books now "break" like movies, with a barrage of advertising and coordinated celebrity or author appearances. Midlist books, of course, are another story.

Print-on-demand is the latest improvement in printing technology. It continues the trend towards cheaper and smaller print runs, and this has both negative and positive implications for midlist authors. Two versions of print-on-demand technology are now under way at the giant wholesalers Ingram Book Co. and Baker & Taylor. In both cases the cover, layout and contents of a book are stored digitally. On order, a high-tech version of a copy machine can print out a new copy in a matter of minutes.

Both test projects began this spring, using specially designed equipment made by IBM and Xerox, but they are following different business plans. Baker & Taylor is buying up back-list rights to books, which the company will digitize and make available under its own imprint. Ingram is offering to digitize books and sell them for publishers in exchange for a cut of the cover price.

Conventional printing is still more efficient than print-on-demand for titles that sell 800 copies or more a year, according to Larry Brewster, head of Ingram's Lightning Print division. The economics of Lightning Print work like this: let's assume that a 300-page paperback book sells for about $20. A bookstore pays Ingram $10 as the wholesale cost, and Ingram charges $5 to print it and sends the remaining $5 to the book's original publisher. The initial cost to the publisher of converting a book to digital form is between $100 and $150. Alternatively, a publisher can order a Lightning Print print-run of just 25 copies, for a total cost of about $200. In comparison, offset printing costs about $1,500 to $2,000 to set up and about $2.50 a book for printing and binding.

As print-on-demand becomes cheaper and easier, the potential consequences are enormous. The copyright to slow-selling, older books may become more valuable. Bookstores may someday print books while you wait, which eliminates the need for them to order new copies or carry extensive stock. (Presumably, the store would forward a fee to the copyright-owner on each sale.) At the very least, print-on-demand will make self-publishing and small-press publishing even easier.

There are obviously reasons for authors to be concerned about print-on-demand. An immediate danger, according to Virginia Barber, is in the changing definition of in-print. Copyright customarily reverts to the author when the publisher fails to keep a title in print. This means the author can resell the rights later, if there is demand. Some agents even buy back or reclaim their all clients' previous copyrights so they can sell an entire body of work as a package. That gives a new publisher incentive to promote the author. If publishers argue that availability through print-on-demand legally qualifies as "in-print, then authors would not be able to reclaim their copyrights, even if the books aren't available conventionally. Future contracts are likely to solve this semantic problem by defining "in-print" more explicitly, but the issue of the definition in existing contracts hasn't been resolved.

Other advances in technology, from copy machines to electronic data services, also present challenges to midlist authors. Libraries are exploring electronic archiving of books, which could be a substitute for buying them. The Authors Guild believes photocopying is also costing authors sales and royalties. Terry King, who runs an organization affiliated with the Guild, says that in Britain and other European countries, public agencies collect money from academic institutions based on their use of photocopied books and pay out the proceeds to authors. King's organization helps distribute money to

U.S. authors from abroad and from the electronic use of their works. The organization has distributed more than $800,000 from Britain to U.S. authors over the last two years.

In other ways, single-copy printing may be good news for midlist authors. It can boost a book's back-list sales by prolonging its availability. Ideally, the possibility of long-term low-level sales will probably make midlist books somewhat more valuable to publishers. Print-on-demand means that the sheer making of a book will be cheaper and easier than it has ever been. As the cost decreases, the number and variety of books published (in some form) can be expected to rise.

**Other Publishers: Mid-Size, Small and University Presses**

The most significant trends affecting midlist books are at the retail level, principally involving the chains but also including the mass-merchandisers, Internet bookstores and libraries. A less-conspicuous trend relevant to midlist authors and books is the dramatic boom in small, nonprofit and university presses, whose success is a noteworthy change in the publishing landscape.

The small-press movement first blossomed in the late 1960s, and many small presses converted to nonprofit status in the 1970s in order to attract philanthropic support---and because their goal was to publish literature, rather than generate a return. Some of the more prominent small and nonprofit presses are Alice James Books, Copper Canyon Press, Curbstone Press, Graywolf Press, New Issues Poetry, Paris Press Inc., Sarabande Books, Story Line Press, Turtle Point Press, BOA Editions, Coffee House Press, Milkweed Editions, New Rivers Press, Arte Publico Press, Beacon Press, South End Press and City Lights. Andre Schiffrin, former head of Random House's Pantheon imprint, set up his own non-profit, the New Press, in 1992. It focuses primarily on left-leaning nonfiction and depends on subsidies for about 20% of its budget, which includes extensive outreach into poor neighborhoods. The New Press's success (it has had some bestsellers) is drawing attention to high-quality publishing outside the mainstream. The University of Chicago Press, Harvard University Press, Cambridge University Press, Princeton University Press, Columbia University Press, and many of the large university presses also publish a growing number midlist nonfiction titles, and occasionally fiction too. Peter Givler, head of the American Association of University Presses, says declining financial support from their schools and shrinking book acquisitions at academic libraries are pushing presses toward midlist trade publishing, which is lucrative compared to their usual fare. Where small presses often focus on literature and poetry, the university presses play an analogous role in nonfiction.

Small presses and university presses exist primarily to publish books too risky for the largest commercial houses. Lower office expenses and payrolls enable these houses to publish smaller-selling titles more easily---even titles with expected sales below 4,000 copies. They operate with some significant disadvantages, however. They lack the big publishers' economic muscle, particularly in negotiating with printers and retailers. They cannot compete in terms of advances or marketing budgets, and they cannot sign authors who generate bidding wars. Small publishers sometimes don't even offer a competitive royalty rate. Instead, they often peg the author's take to a book's net income, which can mean a 40% reduction from the standard royalty. Very few authors would rather be published by a small press than one of the big houses.

Still, not every talented author has the option of publishing with a big New York house. The small presses provide an important second chance for works of merit when big New York publishers overlook them. In the last decade, they have achieved big gains in book sales, credibility and critical recognition. Among recent literary best sellers, for example, Rebecca Wells's first book, *Little Altars Everywhere*, was published by Seattle publisher Broken Moon Press; HarperCollins republished it as a paperback following the great success of Wells's second book, *Divine Secrets of the Ya-Ya Sisterhood*. Dorothy Allison, author of *Bastard Out of Carolina*, published her early work at the tiny feminist press Firebrand Books, and she continues to publish collections of essays there. Other successful authors published by small, non-profit presses: Tony Kushner (Theater Communications Group), David Haynes (New Rivers Press), Susan Straight (Milkweed Editions), Larry Watson (Milkweed Editions), and Luis Rodriguez (Curbstone Press). Small-press authors who achieve significant sales often defect to larger houses for subsequent books; who wouldn't be tempted by offers of support from a big publisher? The paperback divisions of some large houses assign editors to watch promising small presses for new authors. The point is that small houses launch otherwise overlooked authors who turn out to have real talent.

Bobbi Mark, of Market Partners, says the best small and mid-size publishers currently account for a growing 15% to 20% of new adult trade book sales. David Cully, president of distribution at Barnes & Noble, says that the ten biggest publishers now account for only 46% of its book purchases, down from 74% just three years ago, and says this is evidence of "a wider range of consumer interest in less-known works of serious fiction and nonfiction than has previously been recognized." Phil Ollila, Borders' head of merchandising, says that its stores have noticed a similar pattern.

Cully's statistic is somewhat misleading: Barnes & Noble has shifted from mall stores to much bigger superstores, and it has increased its inventory from small presses partly to fill the shelves. Also, small presses produce cooking, self-help, humor, and spirituality titles, just like their larger rivals. But a 100% increase in three years still reflects a genuine boom---fueled in part by Barnes & Noble's added shelf space.

Another sign of the growth of the small press movement is the soaring revenue of specialized small press distributors. Publishers Group West, based in Berkeley, Calif., whose biggest client is Grove/Atlantic Monthly Press, is now among the ten largest book vendors. PGW's 1997 net revenue was more than $135 million, compared to about $850 million for Random House and $45 million for W.W. Norton. PGW's net revenue has grown rapidly over the last twenty years, from less than $150,000 in 1978, to around $1 million in 1980, $15 million in 1987, to nearly ten times that today, according to its chief executive, Charles Winton. He says that about 90% of the revenue comes from about 35 core clients, who also include Marlowe & Company/Thunder's Mouth Press, Four Walls Eight Windows, and Milkweed Editions.

Smaller specialty distributors are also flourishing, including Consortium Book Sales & Distribution, National Book Network, and Small Press Distributors. Consortium, which focuses on nonprofit presses' books, has seen a five-fold increase in its sales volume since 1992, according to Randall Beek, its chief executive. Consortium, National Book and Small Press Distributors are all less than a tenth the size of PGW, with about $10 million in annual net sales each.

As Barnes & Noble and Borders like to point out, the superstores are eliminating one of the difficulties small publishers have, which is getting their books stocked. The growth in bookstore space means that the small presses have much better access to the retail marketplace than they did ten years ago, although you usually have to hunt for their books in stores. Independent bookstores like the Tattered Cover, in Denver, or Powell's, in Portland, Ore., are touting themselves as specialists in small-press titles that get lost in the chains.

The rise of the specialized distributors has also opened doors for small presses. These distributors employ sales forces dedicated to small-press books, and their clout helps the presses negotiate with bookstores and collect bills more effectively. Otherwise, small presses have to depend on commissioned sales representatives, who have an incentive to cherry-pick the most obviously sellable titles instead of pushing the editors' favorites. PGW has a salaried sales force, just like the big publishers, and it also offers marketing advice and other consulting services to its client presses.

Financier Frank Pearl's Perseus Books, like PGW, hopes to couple the small scale and entrepreneurial spirit of the independent publishers with the economic clout that big, centralized marketing and distribution brings. Both Perseus and PGW specialize in midlist books, although PGW is less highbrow and more ecumenical in its goals. Where Perseus focuses on literary fiction and serious nonfiction, PGW distributes books of all kinds. In addition, through its Avalon unit, PGW has started acquiring ownership stakes in small presses. (It is too soon to tell whether investing in certain clients will alienate others who compete with them.) Perseus began by buying or creating from scratch midlist imprints and small presses, such as Basic Books, Addison Wesley Longman, Henry Louis Gates' Civitas press, and Peter Osnos' PublicAffairs. Perseus provides back-office administration and pays HarperCollins to handle sales and distribution for all of its presses.

Small presses aren't about to take over publishing. Agents, with a few notable exceptions such as Marie Dutton Brown (who specializes in African-American writers), don't bother pitching their authors' books to small presses. As one agent put it, "I don't spend the time, for three reasons: the check, the check, the check." Their inability to pay competitive advances keeps most small presses in the role of publishers of last resort for midlist authors who have struck out at the largest houses. But occasionally an author will sacrifice advance money in order to publish with a well-regarded smaller house, such as the New Press, Walker or Grove/Atlantic, in the expectation of more attentive editing, a more energetic sales effort, and maybe in the end more royalties. Another problem for small publishers is that they can't provide marketing and publicity support for their titles. Of course, not every book from a big house receives its full support; the marketing gap between the bottom of a big house's list and the top of a small ones' is not significant. But marketing remains one of the biggest challenges to a small press and its authors. Small presses cannot pay chain bookstores for placement of their titles or for in-store advertising, nor can they take the risk of ordering up the large print-runs that chain-store display policies demand, which in turn limits their access to the prime display areas at most superstores. For that reason, independent bookstores are the real launching pad for most small-press books that succeed commercially.

But helping small presses get over the marketing hurdle can produce amazing results. The Lila Wallace-Readerís Digest Fund recently worked with 11 nonprofit publishers to improve their marketing and publicity efforts over a five-year period. Each press participated in workshops and then received grants to target a particular segment of the market (such as retail sales, classroom adoption, or library sales). The size of the grants varied in proportion to the size of the press, but they averaged about $40,000 over a 12- to 18-month period. The participating presses saw a 57% increase in their annual sales volume during that period, from a combined total of $2.6 million in 1992 to $4 million in 1996, according to an internal report on the results of the program. The number of book reviews their titles received more than doubled.

The most effective single marketing tactic was trying to increase sales at the chains by sponsoring author tours and building relationships with their book buyers. Small presses that targeted the big booksellers spent part of their grants on one form or another of payments to the chains, if only to cover the costs of staging and promoting author appearances. This generated a 40% increase in sales through the chains. Small presses that focused primarily on promoting sales to independent bookstores, their traditional retail outlet, saw only a 4% increase in sales through independents. Of course, during this period the independent stores' share of the market was diminishing and many were closing their doors. But the results do suggest that marketing support has a much bigger impact on a title's fate in the superstores than it does in the independents.

## The Changes in Book Selling and the Declining Sales of Midlist Books

More midlist titles than ever before are available, from both large commercial publishers and small presses. More and more shelf space is devoted to selling them. Nonetheless, midlist books as a group are losing sales and market share. The most persuasive explanation for this is the runaway growth of the chains, and their use of ”cooperative advertising” policies.

Few people in publishing believe that readers' tastes have simply shifted toward a handful of thrillers, celebrity autobiographies, and self-help books. Almost every editor and bookseller I spoke with said the market for critically successful books of literary merit is as strong as it ever has been. They point to the success of Oprah's Book Club and to the surprisingly big sales of books like *Angela's Ashes*, *Cold Mountain*, and *A Civil Action*. If a good book can get itself anointed---by making it onto, say, Oprah or a bestseller list---then it seems to be able to find a substantial audience.

In the 1950s, small, independently owned bookstores made up almost the entire retail-store market for adult trade books (except mass market fiction). Independent stores' share of the adult trade book market had declined to 31% by 1991, and to 18% by 1996, according to the BISG. Bookstore chains had 26% of the adult trade book market by 1991, and 25% in 1996.

The remainder of adult trade book sales now are made through book clubs, the Internet, mail order catalogues, mass merchandisers like Wal-Mart, and other non-traditional booksellers. Aside from certain specialized book clubs, these outlets sell almost no midlist books. Before the advent of the Internet, bookstores made up virtually the entire retail market for midlist books. Independents' and small chains' share of the bookstore market declined from the original 100% to 54% in 1991 and 42% in 1996. Large chains increased their share of bookstore sales to 46% in 1991, and 58% in 1996.

Chains are taking sales from independents, but their cut of the total book market is not increasing. The reason is that non-bookstores are now selling more books than bookstores. Conventional bookstores sold only 40% of the adult trade books purchased in 1996, according to the BISG. The other 60% were divided among book clubs (18%, up 3 percentage points from 1991), general-merchandise discount stores (9%, up 2 percentage points), warehouse clubs (6%, up 1 percentage point), used book stores (4%, down 2 percentage points), food and drug stores, mail order, and other outlets. Discounters and warehouse stores are taking bestseller sales from the chains. So the chains are closing their mall stores in favor of superstores, which take sales from the independents.

During the last five years, Barnes & Noble has opened more than 500 superstores and Borders about 240. In the immediate future, Barnes & Noble plans to keep opening about 60 a year, and Borders about 35. Meanwhile, independent stores are going out of business. Avin Mark Domnitz, head of the independents' American Booksellers Association, says closings have lowered his membership from 5,100 in 1993 to less than 3,500 today.

As bigger stores replace smaller ones, one result is a heady expansion in shelf space. In Columbia, SC, for example, where several superstores have opened, bookstore space tripled, to over

140,000 square feet, between 1994 and 1997, according to the *Wall Street Journal.* Columbia's population is still just 100,000, and no one believes its residents are buying three times as many books today as they did in 1994.  Although sales are flat around the country, store space nationwide was expected to grow by more than 14 million feet in 1998.

Barnes & Noble and Borders are public companies whose investors have been willing to provide the capital to keep opening big stores at a rapid rate. This produces dramatic revenue growth, but it obviously can't go on forever. How many more three-story superstores can fit into Greenwich Village? The chain-store wars have already produced casualties, like the recent bankruptcy of Crown Books. Books-a-Million Inc., a Southern superstore chain,  also stumbled in the second quarter of 1998, reporting a slight decline in sales from the previous year. (That was before it launched its Internet bookselling site.) Some Wall Street securities analysts have begun to raise concerns about future growth at the big superstore chains too.

But concerns about overbuilding apply to every kind of retail business in the U.S.-- retail space has been growing faster than disposable income for a decade. Barnes & Noble and Borders so far avoided obvious problems of overcapacity. Both managed to shift their focus from stores in shopping malls to superstores in the early 1990s as it became clear that malls were becoming over-built. In 1998, Barnes & Noble and Borders reported more than a 5% increase from the previous year in sales at superstores that had been open for at least one year. In other words, even if they hadn't opened any new stores, their sales would still be growing modestly. Both chains reported operating profits from their bookstores in the first half of 1998 that were more than double 1997's figures.

The superstores have been a blessing to midlist books at least by making midlist titles more widely available than ever. A typical superstore stocks about 150,000 titles in close to 20,000 square feet of space. Taken together, Barnes & Noble's stores stock over 600,000 different books, says the company's Patricia Bostelman. (A typical independent carries fewer than 20,000 titles.)

Both chains centrally stock the vast majority of the titles published each year, though that doesn't mean each store carries most new books. Barnes & Noble's David Cully said the company orders 85% of the more than 50,000 new adult trade titles published each year. Bostelman said virtually all new titles are sold at some Barnes & Noble in some quantity, if you include locally ordered books and books special ordered at a customer's request. Phil Ollila, head of merchandising at Borders, said his company centrally stocked more than 38,000 new titles last year, and that more titles were ordered locally.

But the sheer number of titles slightly misleads. A close look at superstore sales patterns suggests that most titles they stock serve essentially as wallpaper. The superstores' strategy is to become a retail destination. You come to hang out, but then you buy. Along with armchairs, bagels and cappuccino, the library-like atmosphere attracts shoppers. The actual spending patterns of superstore customers, however, are quite different from what the impressive statistics about books ordered would lead you to think. In superstores, people buy is a narrower range of titles than they buy at independents. That is why the superstores are proving to be a less efficient vehicle for selling midlist books than the independents they are replacing.

Independents probably do a little better than superstores at moving books out the door. Bostelman says that the average title in stock at Barnes & Nobles sells about 2.5 copies a year. Borders' Ollila says its sales per book are roughly similar. An ABA survey of about 200 independent booksellers found a slightly higher average turnover---about 2.7 times a year---but the ABA notes that the sample isn't big enough to be representative. The very best independents are selling closer to 3 copies of each title a year. Also, independent stores' returns rates for new books are about 10 percentage points lower than the chains, which means that they sell much more of what they stock.

These figures probably understate the difference between the chains' and the independents' sales patterns, though, because superstore per-book averages are driven up by sales of non-midlist books. Barnes & Noble says that less than 3% of its superstores' annual revenue comes from New York Times bestsellers, if coffee and food sold in its stores are included; bestsellers account for less than 4% of trade-book sales revenue. Borders estimates that the bestsellers' share of sales at its stores is roughly the same. Bestsellers make up almost as high a percentage of sales at superstores as they do at mall stores, however, and far more than at independents. Bestseller sales at Barnes & Noble are only about 1% less than bestseller sales at B. Dalton mall stores, according to an internal memo that Cully and Bostelman showed me (4% vs. 5%). And B. Dalton stores sell almost no midlist books. By contrast, the ABA and independent store owners say their bestseller sales are minimal because they can't match the superstores' and mall stores' steep discounts.

Titles that account for a disproportionate share of superstore sales may not be bestsellers---but they aren't serious nonfiction or literary fiction either. The following breakdown comes from the same Barnes & Noble internal memo:

About 30% of superstore book sales revenue comes from titles that have been in stock for less than a year ("front-list"). The comparable figure at the B. Dalton mall stores is 37%. Older titles ("back-list") make up the remaining 60% to 70%.

About a fifth of the front-list sales revenue at the chains comes from only 100 books. Among back-list books, one-fifth comes from the top 500 titles. (These figures exclude special orders and titles of which fewer than 10 are normally in stock, such as some local or regional titles.)

The top titles are known internally as "NOS," for Never Out of Stock. They include books like the *Chicago Manual of Style*, *Windows for Dummies,* the *Seven Habits* books, cookbooks, mass market books, bestsellers, and self-help books---perennials and books-of-the-moment.

Below these elite titles, sales drop off precipitously. The second 20% of front-list sales revenue comes from 6,000 titles. The next 20% of back-list revenue comes from 25,000 titles. At Barnes & Noble and at Borders, the vast majority of the titles in stock sell fewer than two copies a year. Selling them may not pay the rent for their shelf space, but their presence in the store contributes to the atmosphere that draws customers.

Sales are distributed among titles somewhat more evenly at independents. Even Barnes & Noble's Bostelman agrees that the sales curve is likely to be flatter at independents, if only because they sell few bestsellers. Independents' stocking, merchandising and placement decisions are less centralized, so as a group they almost inevitably feature a greater variety of titles. The chains appear to be the leading cause of the decline in midlist book sales: the rise in bestsellers' market share has coincided with the superstores' expansion over the last ten years.

If there is a single reason why midlist book sales are lagging, it is the chains' merchandising policies. First, the chains' aggressive discounting of bestsellers diverts sales away from other books. Second, the chains have used their market clout and organizational sophistication to win a variety of payments from publishers that have the effect of putting midlist books, independent booksellers, and small presses all at a constant disadvantage. "Everybody says we're in bed with the chains," one Simon & Schuster executive told me," and really to a certain extent we are."

The chains use their size, first, to get volume discounts from publishers. The ABA's 1994 lawsuit against several big publishers alleged that they were making secret deals to offer special discounts to the chains, their biggest customers. As part of the settlement, the defendants disclosed all of their pricing agreements and paid the ABA's legal fees. Then Viking-Penguin settled a second suit and agreed to pay the independents $25 million as its penalty for violating the first agreement. (Viking had offered an undisclosed 10% discount to the chains to encourage them to pay their bills early.) But the ABA's lawyers note that the anti-trust laws prohibit only secret or discriminatory deals, not ordinary discounts for high-volume retailers. For example, Viking Penguin offers an extra 2% discount on Penguin Classics to retailers who display 300 of them together---something few independents would have space to do. Publishers also offer deals to bookstores that come with elaborate paperwork and auditing requirements that, though legal, can't be met by understaffed small stores.

Publishers' marketing subsidies to the chains and other bookstores, called "cooperative advertising," are bad for midlist books. Under coop advertising agreements, stores are allowed to retain a pool of money equal to about 3% to 5% of each year's net sales from a publisher, to be spent on promotions---about 30 to 75 cents a book. Publishers require that no more than 25% of the pool be spent on one book, but specific allocations are negotiated with the bookseller. On top of that, publishers sometimes agree to pay the bookseller additional promotional fees, or "incremental coop," of anywhere from 50 cents to $1 a copy, depending on the size of the order. This pays for store placement or ads, or is just meant to persuade the chains to stock a lot of copies. (One reason for 1997's high returns is that publishers sometimes paid booksellers to stock books.) The sums involved can be significant. Barnes & Noble might order 100,000 copies of an anticipated hit, and receive from $50,000 to $100,000 from the publisher. That would put about 200 copies in each superstore location. (Some of the order is warehoused and gradually "fed in," but the bill for promotional fees is the same.)

Cooperative advertising payments have become prevalent only in recent decades, beginning at the chains and spreading to the independents. Since the ABA's lawsuits, publishers have been careful at least to make the same deals available to the independents as to the chains. But the fees in general are geared to the size of the chains; they reap the most benefits from coop payments.

Bookstores use the money for a variety or promotions, but rarely to support midlist books. Fewer than 10% of the new titles published each year receive any cooperative advertising support, according to Phil Ollila and Patricia Bostelman. Coop money is essentially a tax on all of a publishers' books, amounting to 5% of net sales, whose revenues go to support the sale of a very few. It has a reverse Robin Hood effect.

Some of the money pays for newspaper and magazine ads that feature new titles under a Barnes & Noble or Borders heading. Some of it pays for posters, catalogs, newsletters, or ad-cards in stores. The chain stores also sometimes charge publishers out of coop accounts to place a title in stacks near the front of the store, in cardboard floor displays, in windows, on side tables at the end of aisles, in advertisements in the cafe, on top of bookcases, or on shelves face out. The largest, best-organized independents use their coop money to publish newsletters featuring new books, and occasionally for placement in the windows. Similar pay-for-placement programs have been common in supermarkets and other big retailers for decades, and they were reportedly first adopted in bookselling by Walden Books, in the 1970s.

Barnes & Noble and Borders don't disclose their prices for specific cooperative advertising packages---that is, what publishers can buy with the money in their coop pools and promotional payments---and they discourage publishers from disclosing the rates. Barnes & Noble's Cully said, "we'd be stupid not to" charge something for the promotions. The specific arrangements are complicated---they are pegged to the number of copies in the first order, and prices go up during the holidays---and vary from chain to chain. Books-a-Million is the most expensive and promotes the fewest titles, Barnes & Noble is in the middle, and Borders is the cheapest and advertises the most titles. People who deal with the chains have provided a rough sense of their non-holiday prices. All these amounts would cover a book's handling nationwide by one of the chains:

*$10,000 per title for front-of-the-store placement for two weeks in a cardboard rack, usually for trade paperbacks.

*$10,000 for front-of-the-store placement on a table of hardcovers for two weeks, plus inclusion in some newspaper or other advertising for the chain. One year, Borders included specific books in its television ads, spending substantial amounts of cooperative advertising money in the process.

*$3,500 for front-of-the-store placement for two weeks, without advertising. This is around the bottom of the price range for front-of-store placement.

*$10,000 for a month of ”end caps,” or displays at the end of a shelf or the top of a shelf. Top-of-a-shelf promotions are often used for back-list items such as guidebooks.

*$2,500 for participation in a program like ”Discover New Writers” at Barnes & Noble, which brings with it inclusion for two weeks in a prominently placed special display rack.

*$500-$1,000 per store to defray the cost of an author appearance.

*$50 for a mention in an independent's newsletter.

There are other charges for posters in stores, for cards on the cafe counters, for window displays, and so on. At some chains, a publisher can actually buy for a book the right to be named an ”instant bestseller,” so that it receives bestseller placement and a discounted price even before it hits the charts.

Almost everybody but the chains has a complaint about these arrangements. Independent bookstores say they can't handle the complicated accounting required, and can't afford newspaper ads. They don't order large quantities of the kinds of books publishers back with coop money, because customers buy those books at the chains, where there are steep discounts. Coop arrangements effectively shut out most small publishers entirely, and even big commercial houses resent them. Marketing executives often grouse that the coop payments benefit the store more than the book, but they feel they have to pony up to please their largest retail buyers. In private, many editors and marketing executives call the arrangements ”blackmail” or ”gouging.” Having to contribute 5% of net sales to a coop advertising pool is a heavy burden on a business with a profit margin below 10%. The budgets for some titles include as much as $5 a copy for coop advertising expenses---far more than the old “buck-a-book” standard.

For midlist books, the main problem with cooperative advertising is that it concentrates attention on a small number of titles and away from the broad midlist. Midlist books almost by definition receive no in-store promotion or special placement. Even under a generous $2-a-copy marketing budget for a 5,000-copy first printing, any form of chain-store advertising would be out of reach. Postage and copies for reviewers and buyers alone can cost as much as $5,000 for a midlist title---and reviews are vital for all midlist books and an absolute prerequisite to selling midlist fiction. Take out an ad in *Publishers Weekly*, buy the author a plane ticket for a short tour, and you're already over budget.

The chains will place some books prominently for free. Not all of the books on Barnes & Noble's "Discover New Writers" list are paid for by a publisher, for example. When deciding which books to include for free, Barnes & Noble executives say they consider how much money a book's publisher has as well as how appealing the title is. But the titles that ride free often aren't genuine midlist books. When *Rolling Stone* writer Richard Cohen's book *Tough Jews* came out last year, Borders ordered fifteen copies for each of its stores, with stacks and prime placement in locations where Judaica sells well. Part of the reason was that Cohen was scheduled to appear on television with Larry King, who provided a blurb for the book (as did Mario Cuomo and Martin Scorcese). The chains placed *Tough Jews* prominently because there was this sort of momentum behind it, but that isn't the case with most midlist titles.

Time is also tight at the superstores. Barnes & Noble and Borders both say they guarantee a book at least 90 days on the shelf (something publishers' sales contracts often require anyway), and it can sometimes take another couple of weeks for the local clerks to pack it up and send it back. This is, in truth, somewhat longer than the shelf-life of yogurt or radicchio. But the chains are much more ruthless than the independents in pulling books off the shelves. Slow-selling fiction moves immediately to the endangered list. Nonfiction can last longer if it addresses a subject of continuing interest. Barnes & Noble and Borders say they are happy to hold on to a title if the publisher convincingly promises that a big review, an author tour, or some other form of marketing support is on the way. But to make room for new titles they need to return old ones.

Selling at the superstores is a high-stakes game: publishers gamble the cost of big printings and big promotional budgets in exchange for the chance to see copies fly off the shelves. "You don't build books anymore," Michael Lynton, former chairman of Pearson PLC's Penguin Group, told *Wall Street Journal* reporter Bruce Knecht, "It's become the equivalent of blasting [a movie] out over 2,600 screens." (Lynton previously ran Walt Disney Co.'s Hollywood Pictures.)

For midlist books, though, a Hollywood-style marketing blitz is out of the question. Building a midlist book takes time. It can take weeks or months to get from paying for a book yourself to recommending it to a friend. Surprise blockbusters such as *Cold Mountain, Angela's Ashes, A Civil Action* or *The Perfect Storm* did not have any significant momentum until more than three months after publication date, according to their editors. Without the publishers' long-term support and a steady building of sales through the independents, the chains would have returned most copies, and banished the ones they kept to back aisles.

Dava Sobel's *Longitude,* published by Walker, is the quintessential surprise midlist success. The first print run was 10,000 copies, according to its editor, George Gibson. Barnes & Noble ordered about 1,000 copies and Borders ordered about 1,100. The rest went to independents. Gibson didn't push the book via the chains because of the high marketing costs and the short shelf life. Instead, he sent out review copies and made phone calls to the blue-chip independents. "That is the only way to start a small book like that, and it is getting tougher because there are fewer independents left," he told me. Grove/Atlantic's Morgan Entrekin wrote personal letters to recommend *Cold Mountain*. Virtually every time a midlist book succeeds its editor credits independent bookstores with having gotten it going and kept it alive. For their part, independent bookstore owners say there are a few people in publishing who can persuade them to stock and push a book through personal recommendation---people like Gibson, Entrekin, Carl Lennertz of Little, Brown (formerly of Knopf), or Jonathan Galassi at Farrar, Straus & Giroux. The publishers and editors who can make small books succeed do so in part because they have won the loyalty and respect of the independents.

The independents can't keep books on their shelves forever. But many publishers extend flexible credit terms to keep favored books on the shelves, which makes sense---the independents' return rate is about 20%, compared to about 30% at the chains. Also, the independents simply don't have the technological sophistication to pull books off the shelf as punctually as the chains. (I spent time with a clerk at the Borders store in the World Trade Center while he pulled and returned proscribed titles; he worked from a list that comes down from headquarters once a month.)

Good independent stores essentially give away better advertising and more publicity for small books than money can buy, through their staffs' personally recommending, or "hand-selling," books. What chains charge publishers millions for, promoting books in stores, independents have historically done for free. We now know what such promotion is worth because of the fees the chains charge for it. And the independents are now beginning to charge for promotion too.

Where the chains' marketing efforts are centralized, the independents' are inevitably diffuse, and therefore as a group they wind up promoting more titles. David Walker, a Washington, DC, industry consultant who is trying to organize a consortium of independent bookstores, said he has quickly learned that they don't call them "independents" for nothing: two stores can rarely agree on which books to promote.

Barnes & Noble and Borders insist that their clerks "hand-sell" too, but their small-store rivals, and many editors, say they don't. "The reality is, some of our stores do a good job hand-selling, and some of them don't---just like the independents," Barnes & Noble's Patricia Bostelman said. Publishers wouldn't pay dearly for cooperative advertising and placement if hand-selling in the chains was working well. Also, the superstore business plan centers on leaving people alone to browse and drink coffee, not talking to them about books. And, "they are retail jobs, so there is an awful lot of turnover," as Borders' Phil Ollila put it. The Barnes & Noble at Union Square in Manhattan pays clerks less than $7.00 an hour. The sheer size of the superstores makes it difficult for a customer to talk to the same clerk twice, let alone build an ongoing relationship. Independents pay poorly and have high staff turnover too, but the owner or manager is never far away from the customer. I suspect that chain-store clerks' reputation as not very knowledgeable is itself an obstacle to hand-selling.

Independent bookstores are now changing in ways that hurt midlist authors. Many of the best, like Powell's, in Portland, Oregon, the Hungry Mind, in Minneapolis, and the Tattered Cover, in Denver, are becoming essentially single-site superstores in their scale and operations. The more independents take advantage of publishers' promotional subsidies for selected books, the more their patterns of marketing support will coincide with those of the chains.

Independent bookstore owners are now trying to organize themselves better. The ABA is planning a campaign to promote independent bookstores as the place to buy more sophisticated, less commonplace books. One part of the campaign involves inviting stores to select collectively a list of common favorites, and then asking publishers for cooperative advertising subsidies to promote the list. A group of stores led by Prairie Lights, in Iowa City, Iowa, has formed a separate Independent Booksellers Consortium, which picks its own list of favorites. The group's efforts to negotiate collectively with publishers haven't gotten off the ground, though, and some of its members have gone out of business, which hinders its momentum. David Walker, the coordinator of the Independent Booksellers Consortium, provided this list of favorites from the fall season of 1997:

**Fiction**

*A Blessing on the Moon*, Joseph Skibbel (Algonquin)

*The Devil's Chimney*, Anne Landsman (Soho)
*The Magician's Assistant*, Ann Patchett (Harcourt-Brace)
*Memoirs of a Geisha*, Arthur Golden (Knopf)

**Non-fiction**

*All Over But the Shoutin'*, Rick Bragg (Pantheon)
*Brassai: Letters to My Parents*, trans. Peter Laki & Barna Kantor (University of Chicago)
*Fermat's Enigma*, Simon Singh (Walker)
*Jackie Robinson*, Arnold Rampersad (Knopf)
*The Spirit Catches You and You Fall Down*, Anne Fadiman (Farrar, Straus & Giroux)

## Internet Book Selling

In just a few years, Jeff Bezos' company, Amazon.com, has become the third-largest bookseller in the United States. Whether its impact on midlist books will differ from that of the superstores, however, remains to be seen. Barnes & Noble, in alliance with Bertelsmann, is moving aggressively to follow Amazon.com into the Internet market. Some independents, like Powell's, have started online sales operations too.

Bezos says Internet book selling can really "shine" for midlist, small press, and back-list books, for two reasons. Amazon.com's shelf space is infinite, and its returns rate is less than 2%. It can make any book available and doesn't have to commit resources to moving big print-runs out of the store. The Internet is well-suited to marketing midlist titles. "Books are in the difficult middle," he said. To sell a mass-market product like deodorant, you take out an expensive ad during the Super Bowl. To sell a targeted product like investment banking services (his previous line of work), you visit the two dozen potential clients personally. But for midlist books, the audience is 3,000 to 25,000 people---too few to justify big ads and too many to contact personally. One way to get around this problem on the Internet is to recommend books to regular customers based on their buying habits. Amazon.com's web site recommends titles bought by others whose buying habits are like yours. After I had bought Robert Caro's book *The Power Broker*, Amazon.com recommended Anthony Lukas's *Common Ground*. Ordering R. Foster Winans' book *Trading Secrets* drew a recommendation for Michael Lewis' book *Liar's Poker*. Sidney Hook evoked Martin Heidegger. The other Internet booksellers offer similar services.

So far, the Amazon.com bestseller list correlates very little with terrestrial lists---at least partly because of the dominance of computer and investing books on the Internet. The fiction list tends to be marginally more erudite than other bestseller lists. Because of the Internet's demographics, Amazon.com's shoppers have much higher-than-average incomes, Bezos says. Their average age is 35.

Amazon.com encourages authors to promote their books online by contributing self-interviews. In addition, its "advantage" program offers to help authors sell their out-of-print books. If an author sends a few copies of an out-of-print book to Amazon.com, the company will pay a 45% royalty on whatever it sells. The idea is similar to one tried briefly by William F. Buckley and Stuart Little, who for a few years in the mid-1980s published the Buckley-Little Catalog of out-of-print books for sale by their authors. Amazon.com handles shipping and fulfillment for the author, which the Buckley-Little Catalog did not. The Authors Guild has set up its own comparable web site, Backinprint.com, which pays authors a 55% royalty. Amazon.com also offers to help people set up their own satellite on-line bookstores. For example, one might set up a Web page touting a list of one's favorite books, with a link to Amazon.com. If a customer orders a book from the Web page, Amazon.com ships the book and pays a small commission.

Still, there are reasons to reserve judgment on Internet bookstores. The growth of Amazon.com and BarnesandNoble.com will further squeeze the independents as well as the superstores, and a computer's recommendations can't really replace the idiosyncratic touch of an individual bookstore owner dealing with a familiar customer. The Internet bookstores' recommendations, because they are based on unit sales, won't include just-published books, and they always point a shopper in the direction of the most popular book, not the out-of-the-way one. Internet book-selling may not diffuse book-buying among a wide assortment of titles in the way that independent book-selling seems to. In any case, Amazon.com recently announced a cooperative advertising program of its own, under which it would charge $10,000 for an on-line recommendation. (After the *New York Times* 'Doreen Carvajal reported this news, Amazon.com said it would be sure to distinguish paid advertisements from the editorial recommendations on its site.)

Then there is the question of the Internet booksellers' long-term financial viability. Amazon.com and BarnesandNoble.com are both currently reporting big losses. Internet retailing is fiercely price-competitive because buyers can shop around with the push of a button, so its profit margins will always be low. Getting shoppers to one site instead of another requires extensive, constant marketing support in other media, which is very expensive. Donald Trott, a retail analyst at the investment bank Brown Brothers Harriman, also notes that on-line booksellers must pay staff to cull and set aside the individual books as orders come in---something bookstore shoppers do on their own. Bezos declined to say when he expects to turn a profit.

For now, though, the Internet certainly opens new possibilities for marketing midlist books to their niche audiences. At the very least, Internet bookstores have added a lot of virtual shelf space devoted to midlist titles.

**The Trouble with Libraries**

Libraries provide a base level of sales for well-reviewed books. There are currently about 16,000 public libraries in the U.S., so together they can make a book a moderate success. University press editors, in particular, say there was a time when library acquisitions provided a big enough market to make scholarly publication almost a no-lose proposition.  But that isn't the case any more.

For at least the past fifteen years, libraries have been a no-growth, or even shrinking, portion of the trade book market. From 1980 to 1989, libraries spending on books actually declined because of cuts in federal funding, and their acquisitions have grown only slowly since then. In 1996, libraries and institutions bought 31.1 million adult trade books, or about 7% of the total of 458.8 million books sold that year, according to the BISG. In 1991, libraries bought 28.9 million, or about 7% a total of 429.7 million books bought that year. In 1982, libraries bought 42.1 million books, or about 8% of the 547.7 million books sold that year.

The financial pressures on public and university libraries are well known. But that is only one reason libraries' support for midlist books is waning. Another is the ascendance of the Baltimore County Public Library philosophy of acquisitions, formulated by that institution's influential librarian, Charles Robinson. Robinson's idea is to give the people what they want: stock plenty of bestsellers and popular books, and display them in a style similar to a bookstore's. Many libraries have branched into lending video cassettes of popular movies. In Baltimore County, the libraries even lend hammers and other household tools.

The Authors Guild believes that the rise of widespread photocopying is another factor in declining library acquisitions of midlist books. Paul Aiken, the Guild's executive director, blames a statutory exemption in the Copyright Act of 1976 that permits certain kinds of unattended library photocopying. He has compiled figures suggesting that university librarians have stopped buying multiple copies of some titles and instead buy one and make it available for photocopying.

Another problem at libraries is the serials crisis. Many academic libraries must subscribe to a wide range of obscure scientific and technical journals. Seeing this as an opportunity for windfall profits, the Dutch publishing company Reed-Elsevier and others have acquired monopolies on academic journals in many areas and drastically raised their subscription prices. Reed-Elsevier's hundreds of journals now include such essential publications as *Biology of the Cell*, *Journal of the American College of Cardiology*, *The Lancet*, *Tetrahedron*, *Nuclear Physics*, *Polymer*, *Linear Algebra and Its Applications*, and *Journal of Financial Economics*.

The rising costs of serials cuts directly into book buying. Between 1986 and 1996, serials rose in price by an average of 147%, and research library spending on serials rose by 124%, according to the Association of Research Libraries. During that same period, books rose in price by only 63% and research library spending on them rose by only 29%. In 1996, research libraries purchased 21% fewer books than in 1986, and 7% fewer serials. (Don't expect to read much about this problem in *Publishers Weekly* or one of the R.R. Bowker publications: Reed-Elsevier owns them too, along with the ABA's annual booksellers convention.)

A final problem at libraries is the rising cost of computer equipment and other hardware. Many libraries are trying to offer their patrons better access to the Internet and other high-tech services. There is a good chance that much of the new money flowing to libraries today will go toward computers instead of books, said Mary Jo Lynch, research director of the American Library Association.

Overall, book-buying's share of libraries' total materials budgets, which cover periodicals, microfilm, audiovisuals, and bindings (but not computers or hardware) is dropping at both university and public libraries, according to the BISG. In 1991, libraries spent $1.32 billion on books, which was 52% of their total materials spending of $2.57 billion. In 1996, libraries spent $1.67 billion on books---48% of their total materials spending of $3.45 billion. Libraries' book spending in 2001 is projected to be $2.07 billion, or 46% of a total materials budget of $4.47 billion.

## Conclusion

In 1995, the economists Robert Frank and Philip Cook published a book called *The Winner-Take-All Society*, whose title resonantly conveys its thesis. Book publishing and selling seems to be the latest example of a winner-take-all dynamic. Superstores are muscling out independent stores, and, concomitantly, bestsellers are muscling out midlist books. The rise to dominance of the big bookselling chains is the single most important development of the last fifteen years in the book business. The chains have put a price on every aspect of bookselling and charged it to publishers. Big publishers, obliged to pay up, have to divide their lists internally into a few books in which they invest and a lot in which they don't. Midlist books wind up being printed but not really published.

The same thing has happened in the record business, the hardware business, the pharmacy business, and many others. Books, however, are a special case, because they are the life-blood of culture and free discourse in a society. If the range of serious books that can come to the public's attention is being restricted, that is a real problem. This report is meant to set off an urgent discussion about what to do about it.