
How to Think about Author Advances: Six Tips B-17 © 2014 by John B. McHugh

“Advances” are an amount of money paid to an author as a percentage of future sales of a book. Author advances are a fact of book publishing and yet few hard and fast rules are available to guide you on the subject. The rule to follow is: If possible, avoid paying any advances to your authors.

The risks when paying advances are many. For example: the author may never complete the book or finish the book on schedule, the author may die or become incapacitated, or the book may not have sufficient sales to earn out the advance. These scenarios occur everyday in the book business.

You should avoid being in the position of attempting to collect unearned advances from authors. Authors rarely return moneys advanced without significant prodding from the publishing company. Suing an author to recover advances on an uncompleted manuscript is costly and time consuming; you do not want to take this route.

Therefore, it is best to always be cautious when paying your author advances against royalties. Here are six suggestions to consider about author advances.

1. The starting point for any discussion of payment of author advances is an understanding of the economics of an individual title. Always run a profit/loss statement (P/L) for the book to be clear about the projected sales and how quickly a book is expected to earn-out any outstanding sales.
2. The payment of an advance is always dependent on the competitive situation for a particular manuscript. If an author has three or four publishers contending for his/her manuscript, then you are in a weak position. However, if your company is the only publisher interested, you are in a stronger position to pay no advance or modest advance.
3. Pay as little advance as possible; precious working capital is tied up in author advances. However, if advances are unavoidable see the next suggestion.
4. Pay no more than you can expect to earn out from one-half of the royalties paid on first year's projected sales. For example, if you expect a book to sell \$100,000 in its first year and the royalty rate is 10% of net sales, then the total royalty earned should be \$10,000. In this instance, the rule would suggest paying no more advances than \$5,000, or one-half of the first year royalty.

5. The payment of advances by an acquisitions editor should be subject to review and approval by a higher-up executive. Acquisitions editors should always justify the need for the payment of an advance. If an acquisitions editor cannot justify the payment, then you should not pay the advance. I subscribe to the notion that the more effective an acquisitions editor, the less need there is to pay advances to sign authors.

6. Establish an upward limit on what the executive in charge of acquisitions can approve as a way of streamlining decision-making and empowering your acquisitions department. Over and above a preset dollar threshold, require a signoff from the CFO and the president.

Author advances are a cost of doing business. An undisciplined approach to the payment of author advances can quickly lead to financial disaster. If you follow the guidelines in this paper, the chances for a negative scenario will be diminished.

OTHER McHUGH PUBLICATIONS OF INTEREST

- *How to Evaluate the Book Acquisitions Function: 29 Questions to Ask*, 2003, 7 pages, B-12, \$8
- *Managing Book Acquisitions: An Introduction*, 1995, 101 pages, M-12, \$70
- *Twelve Factors Considered by Authors when Selecting a Publishing Company*, 1998, 6 pages, PD-2, free
- *Tips and Suggestions on How to Use Your Book Contract Advantageously*, 2000, 5 pages, PD-8, \$5

About JohnB. McHugh

John B. “Jack” McHugh is a 40-year veteran of the publishing business. Jack has worked as an executive for Houghton Mifflin, Wadsworth, and Saint Mary's Press. Jack is also an experienced association publishing executive. For seven years, he was Publisher and Director of Programs at the American Society for Quality and for a two-year period, he served as the Interim Publisher at the Project Management Institute. Jack's specialties include association/nonprofit publishing, book publishing, executive recruiting, journal publishing, rights and permissions, organizational design, and startups. He is the manager two LinkedIn™ groups, Association and Nonprofit Publishing and The Self-Employment Forum.

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