



# Trendspotting: How to See the Big Picture Within the Pages of Your Royalty Statements

June 24, 2016

29<sup>th</sup> Annual Textbook and Academic Authoring Conference

# Royalty Statement Basics

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## Information Contained On Royalty Statements

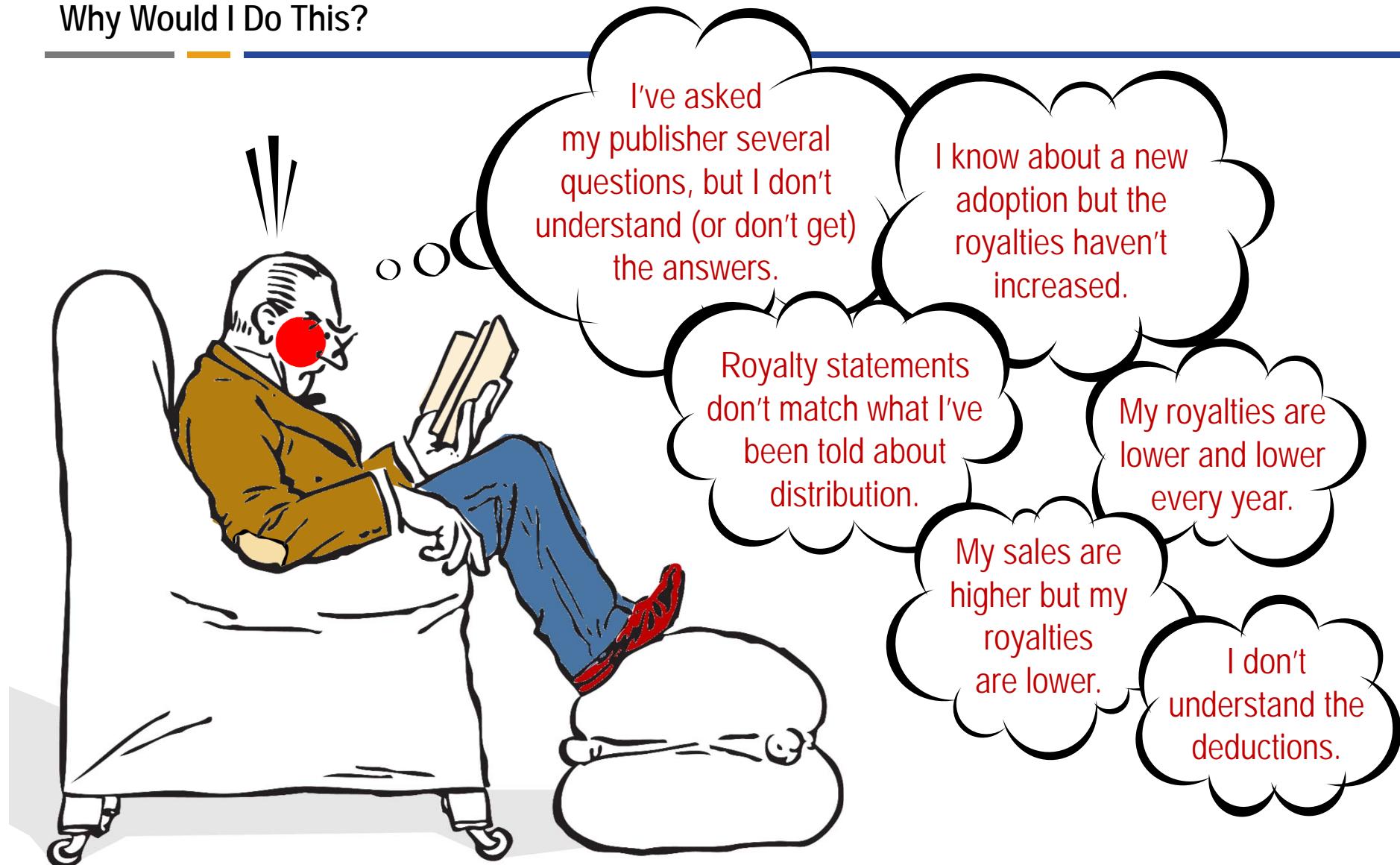
YES (generally)	MAYBE	NO (rarely)
<input checked="" type="checkbox"/> ISBN <input checked="" type="checkbox"/> Edition <input checked="" type="checkbox"/> Net Units <input checked="" type="checkbox"/> Net Units \$ <input checked="" type="checkbox"/> Royalty Rate <input checked="" type="checkbox"/> Contract Share <input checked="" type="checkbox"/> Type (US vs. Export) <input checked="" type="checkbox"/> Sub-rights \$	<input type="checkbox"/> Life-to-Date Sales <input type="checkbox"/> Gross Units <input type="checkbox"/> Return Units <input type="checkbox"/> Gross \$ <input type="checkbox"/> Return \$ <input type="checkbox"/> Package vs. Standalone <input type="checkbox"/> Book Rentals <input type="checkbox"/> Electronic Versions / Access <input type="checkbox"/> Other Content (study guides, CDs, DVDs)	<input checked="" type="checkbox"/> Free Units <input checked="" type="checkbox"/> Detailed Type (i.e. Country) <input checked="" type="checkbox"/> Allocations within Packages <input checked="" type="checkbox"/> Other Components in Packages <input checked="" type="checkbox"/> Copies Printed <input checked="" type="checkbox"/> Copies Shipped <input checked="" type="checkbox"/> Copies Destroyed <input checked="" type="checkbox"/> Sub-right Details

# Sample Statement

JONES HIGHER EDUCATION PUBLISHING									
ROYALTY STATEMENT FOR: TAA Author #1			Title: Fundamentals of Textbook Writing 2nd Edition						
ROYALTY PERIOD: 1/1/2015 - 6/30/2015			ISBN #: 123-456-ISBN-03						
STATEMENT DATE: 9/30/15			Copyright Year: 2012						
Category	Net Units	Net Revenue	Royalty Rate	Total Royalty	Author's Share	Royalty Earned Current Period			
U.S. Regular	2,314	\$ 208,233	12%	\$ 24,988	50%	\$ 12,494			
Canada	1,389	\$ 111,112	12%	\$ 13,333	50%	\$ 6,667			
Export	758	\$ 22,734	12%	\$ 2,728	50%	\$ 1,364			
Sub-rights	42	\$ 420	50%	\$ 210	50%	\$ 105			
Abridgement/Custom	366	\$ 27,450	10%	\$ 2,745	50%	\$ 1,373			
Total	4,868	\$ 369,949		\$ 44,004		\$ 22,002			
Life to Date: 6,462							Balance Forward:	(\$7,500)	
							Deductions:	(\$1,500)	
							Amount Payable this Statement:	\$ 13,002	

## Why Would I Do This?

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## Now Let's Crunch Some Numbers

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## Where to Start

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A pad of paper or even better,  
Excel!

Any relevant correspondence  
with your publisher and your  
“gut” list of potential issues

All contracts, amendments,  
addendums

Historical Royalty Statements



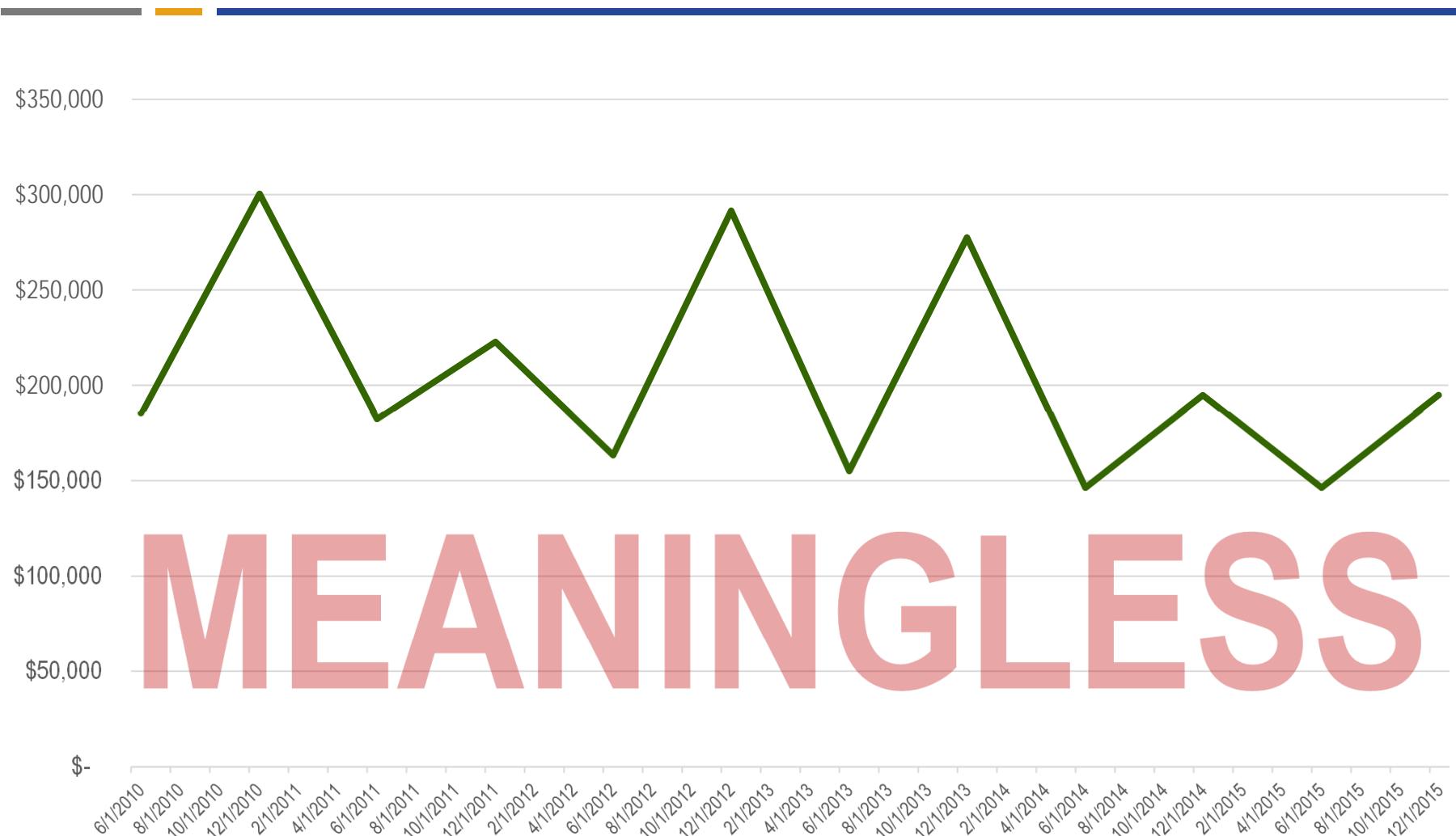
# Royalty Report Summary

## Summary of Royalty Reports

Semiannual Period Ending: 6/30/2010 12/31/2010 6/30/2011 12/31/2011 6/30/2012 12/31/2012 6/30/2013 12/31/2013 6/30/2014 12/31/2014 6/30/2015 12/31/2015

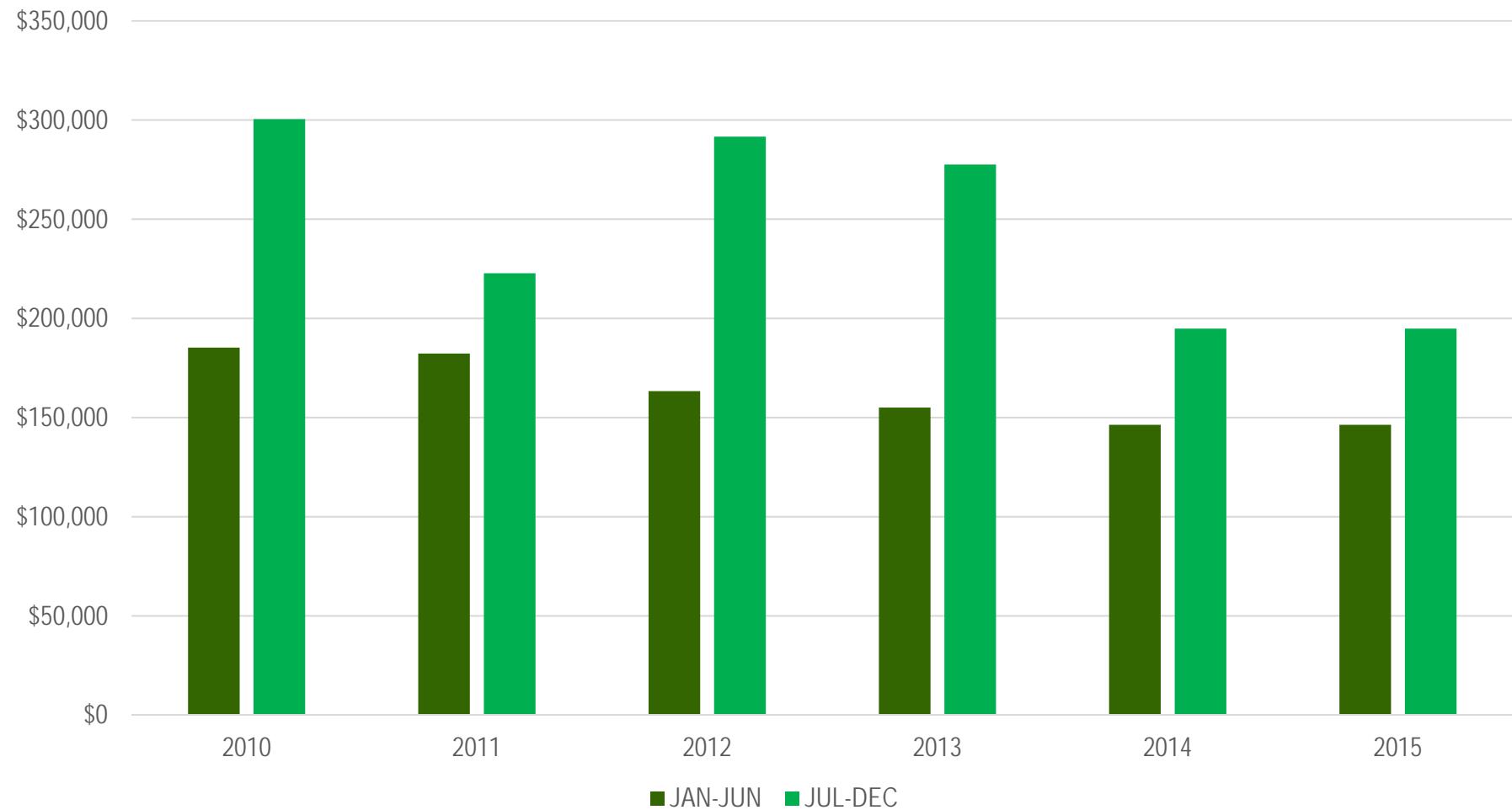
 Print Sales Activity												
	Net Units		Net Sales		Royalty Earned		Net Units		Net Sales		Royalty Earned	
	6/30/2010	12/31/2010	6/30/2011	12/31/2011	6/30/2012	12/31/2012	6/30/2013	12/31/2013	6/30/2014	12/31/2014	6/30/2015	12/31/2015
												
<b>Electronic Sales Activity</b>												
Net Units	2,345	4,999	4,368	6,798	14,567	24,764	15,999	24,989	16,743	20,711	16,789	19,873
Net Sales	\$ 68,543	\$ 106,927	\$ 91,162	\$ 142,213	\$ 352,931	\$ 605,108	\$ 281,977	\$ 613,208	\$ 305,517	\$ 320,898	\$ 302,567	\$ 323,899
<b>Royalty Earned</b>	\$ 3,427	\$ 8,768	\$ 10,939	\$ 17,066	\$ 42,548	\$ 72,613	\$ 31,797	\$ 69,403	\$ 33,599	\$ 37,961	\$ 33,604	\$ 38,002
<b>Total</b>												
Net Units	40,888	65,132	40,967	63,690	51,430	88,114	53,500	81,889	51,298	66,811	50,575	65,172
Net Sales	\$ 1,677,636	\$ 2,350,403	\$ 1,518,523	\$ 1,994,757	\$ 1,480,577	\$ 2,516,941	\$ 1,422,306	\$ 2,450,650	\$ 1,324,298	\$ 1,690,062	\$ 1,260,221	\$ 1,597,221
<b>Royalty Earned</b>	\$ 185,255	\$ 300,420	\$ 182,223	\$ 222,698	\$ 163,303	\$ 291,579	\$ 155,030	\$ 277,521	\$ 146,275	\$ 194,788	\$ 146,281	\$ 194,829

## Royalty Earned / Royalties Paid



## Royalties Paid: January-June vs. July-December Comparisons

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# Royalty Statements: Annual Patterns

## Summary of Royalty Reports

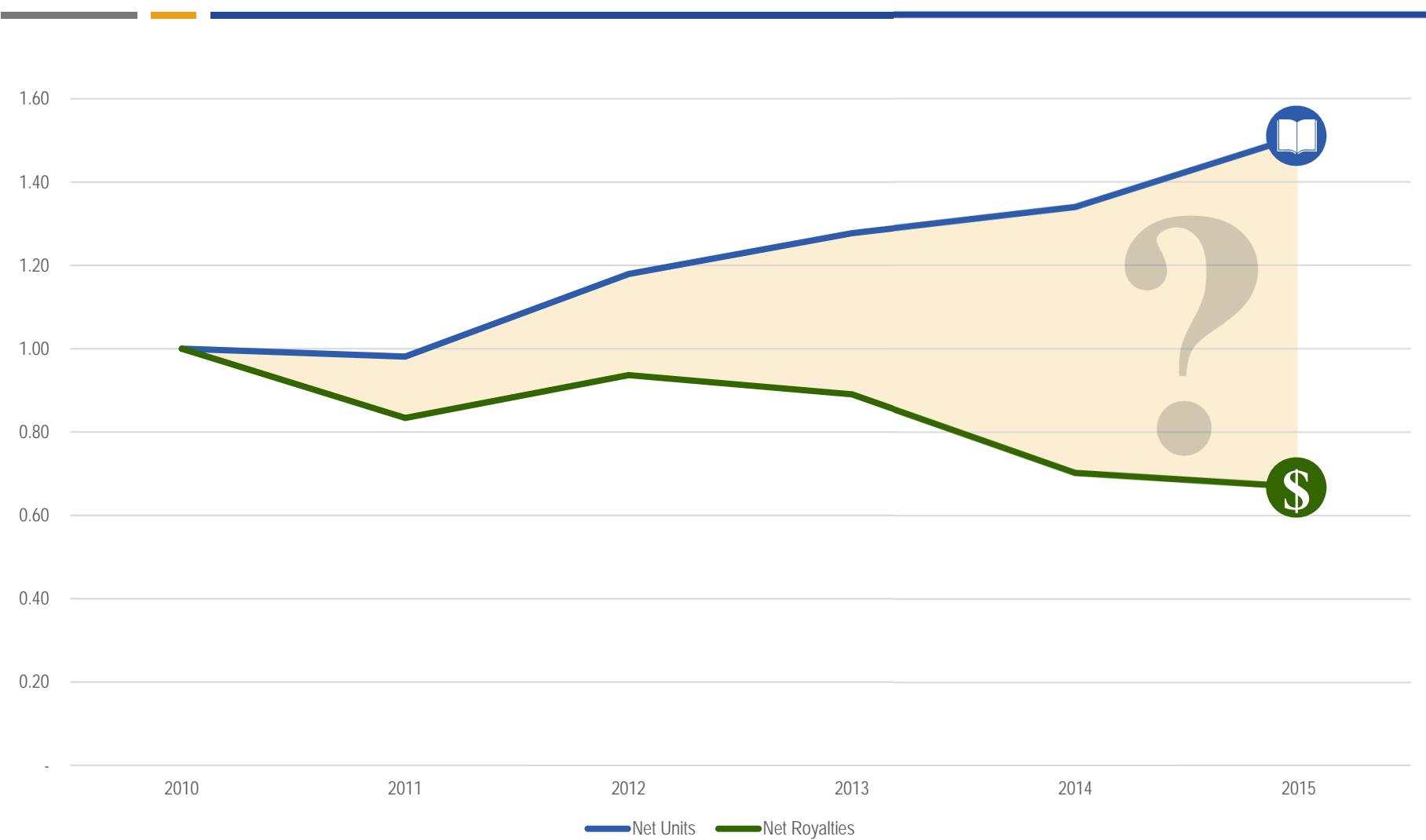
Annualized

	2010	2011	2012	2013	2014	2015	Total
<b>Print Sales Activity</b>							
Net Units	98,676	93,491	100,213	94,401	80,655	79,085	546,521
Net Sales	\$ 3,852,569	\$ 3,279,905	\$ 3,039,479	\$ 2,977,772	\$ 2,387,945	\$ 2,230,976	\$ 17,768,645
Royalty Earned	\$ 473,479	\$ 376,916	\$ 339,722	\$ 331,350	\$ 269,503	\$ 269,503	\$ 2,060,474
Weighted Average Price Per Unit	\$ 39.04	\$ 35.08	\$ 30.33	\$ 31.54	\$ 29.61	\$ 28.21	\$ 32.51
Effective Rate	12.3%	11.5%	11.2%	11.1%	11.3%	12.1%	11.6%
Royalty Per Unit	\$ 4.80	\$ 4.03	\$ 3.39	\$ 3.51	\$ 3.34	\$ 3.41	\$ 3.77
<b>Electronic Sales Activity</b>							
Net Units	7,344	11,166	39,331	40,988	37,454	36,662	172,945
Net Sales	\$ 175,470	\$ 233,375	\$ 958,040	\$ 895,184	\$ 626,415	\$ 626,466	\$ 3,514,950
Royalty Earned	\$ 12,195	\$ 28,005	\$ 115,160	\$ 101,200	\$ 71,560	\$ 71,606	\$ 399,728
Weighted Average Price Per Unit	\$ 23.89	\$ 20.90	\$ 24.36	\$ 21.84	\$ 16.72	\$ 17.09	\$ 20.32
Effective Rate	7.0%	12.0%	12.0%	11.3%	11.4%	11.4%	11.4%
Royalty Per Unit	\$ 1.66	\$ 2.51	\$ 2.93	\$ 2.47	\$ 1.91	\$ 1.95	\$ 2.31
<b>Total</b>							
Net Units	106,020	104,657	139,544	135,389	118,109	115,747	719,466
Net Sales	\$ 4,028,039	\$ 3,513,280	\$ 3,997,518	\$ 3,872,956	\$ 3,014,360	\$ 2,857,442	\$ 21,283,595
Royalty Earned	\$ 485,675	\$ 404,921	\$ 454,882	\$ 432,551	\$ 341,064	\$ 341,110	\$ 2,460,201
Weighted Average Price Per Unit	\$ 37.99	\$ 33.57	\$ 28.65	\$ 28.61	\$ 25.52	\$ 24.69	\$ 29.58
Effective Rate	12.1%	11.5%	11.4%	11.2%	11.3%	11.9%	11.6%
Royalty Per Unit	\$ 4.58	\$ 3.87	\$ 3.26	\$ 3.19	\$ 2.89	\$ 2.95	\$ 3.42

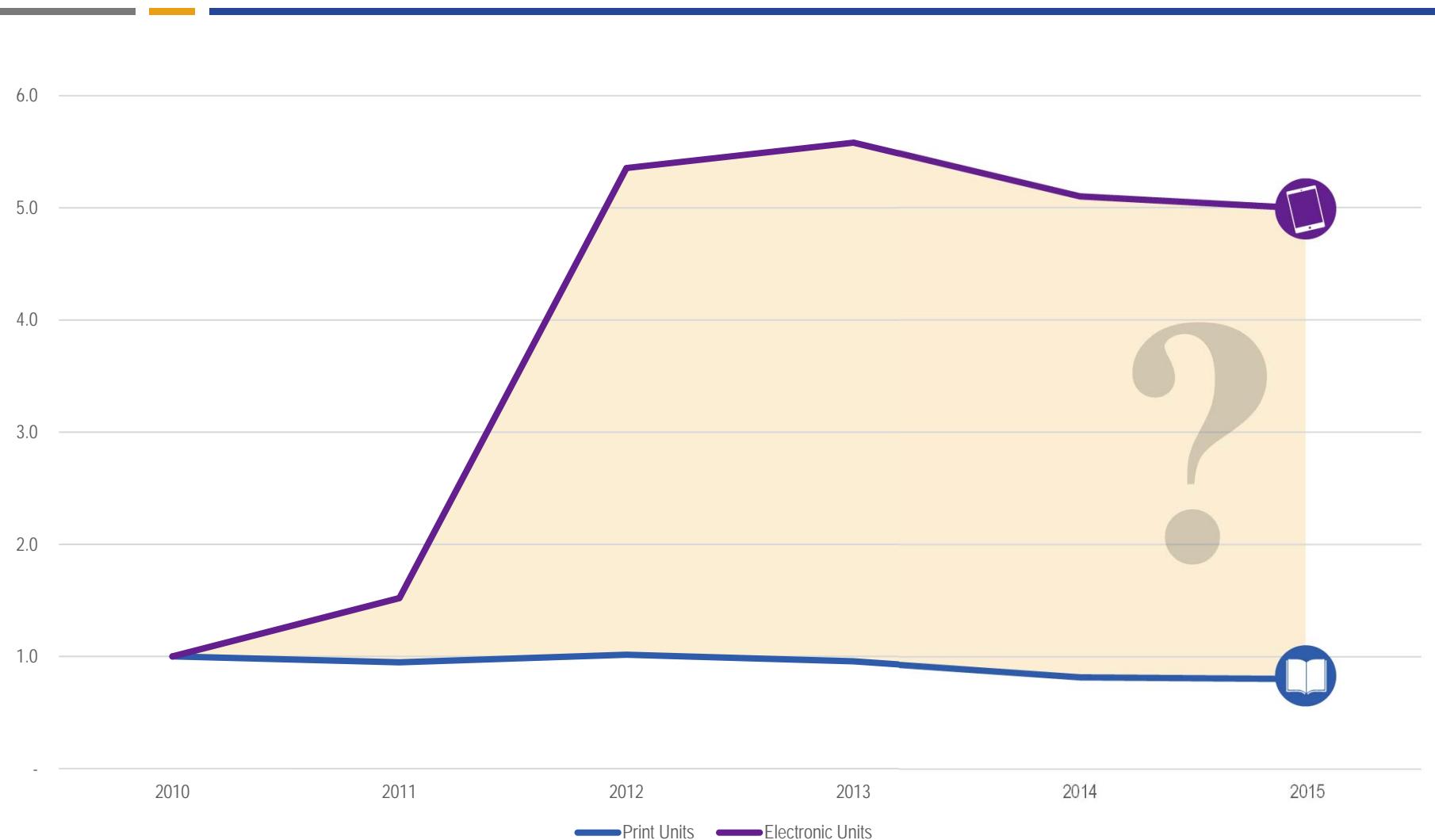
# Big Picture

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## Royalties vs. Units



## Royalty Base – Print vs. Electronic (indexed)



## Annual Trend



## Red Flags

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- Calculations in reports that are not supported
- Insufficient detail
- Publisher's inability to answer questions
- Late payments
- Escalation payments not in accordance with contract clauses
- Payments not as high as expected or do not follow market trends
- Repeated incorrect calculations
- Publisher's poor internal controls
- Complex distribution channels
- Change in royalty accountants / change in contact with knowledge of license
- Business mergers / acquisitions (change in ownership)

## Current Issues

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- Consolidation in Industry
  - Are publisher's systems equipped to keep up with legacy agreements?
- Shift to Electronic Content / Adaptive Learning
  - How is electronic created?
  - How is value determined?
  - What is the future of textbooks?
- Affordable College Textbook Act
- Litigation against publishers
- Do authors have enough information/leverage to address issues in contract negotiations?

# Questions?

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- Ms. Saitz has over eighteen years of experience in providing forensic accounting and financial and economic analysis to attorneys in litigation. Her responsibilities include managing all aspects of client engagements, including planning, conducting fieldwork, reporting, contract administration and providing expert testimony.
- Ms. Saitz specializes in commercial disputes matters and has significant experience providing financial consulting services relating to financial analysis and damage analysis in a variety of industries including financial services, consumer products, manufacturing and entertainment. She has performed financial analyses relating to profit calculations, additional cost claims, incremental profit analysis, licensing and royalty determinations, manufacturing and marketing capacity, fixed and variable cost analysis, allocation of costs, evaluation of forecasts and projections and product line profitability.
- Ms. Saitz has a deep practice relating to contract and royalty compliance with extensive experience serving clients ranging from individual authors to multi-national corporation licensors. Her work in this area includes developing and implementing royalty compliance programs and performing audits of licensees around the world. Ms. Saitz has helped authors and corporate clients recover millions of dollars in asserting their audit rights related to licensed copyrights, trademarks and patents. She is focused on the shift in the publishing industry to electronic content delivery methods and adaptive learning platforms in education. In addition, Ms. Saitz has served as a damages expert in matters involving royalty disputes in the publishing industry.