



Royalty, Reserves, Rights, and Returns

Issues Confronting
University Presses

Issues Facing Royalty Staff

- Publishing Contracts
- Reserve for Returns
- IRS Rules and Tax Documents
- Advances and Expenses against Royalties
- Outstanding Checks
- Missing Authors and Estates
- Subsidiary Rights

Publishing Contracts

- Key to royalty arrangements.
- Four basic types:
 - Standard author contracts
 - Translation agreements
 - Reprint agreements
 - Co-Publication agreements

Author Contracts

- Each press has a standard contract for each authoring situation: monograph, collected essays, reference.
- Each contract has specific conditions.
- Standard terms will be modified in individual agreements.
- Royalty system must catch variations.

Translation Agreements

- Press to produce English language edition.
- Agreement usually in foreign language: must translate and review carefully.
- Troublesome clauses are common, e.g., NAFTA treats Canada and Mexico as domestic market.

Reprint Agreements

- Usually include restrictions on sale of a work:
 - Time period
 - Market territory
 - Formats
- Subsidiary rights often retained by original publisher.

Co-Publication Agreements

- **Terms include:**
 - Inclusive royalty
 - Restricted geographic market
 - Subsidiary rights arrangement
 - Report on royalty sales
- **Treatment for royalty purposes:**
 - Purchase of stock
 - Annual accounting of sales

Reserve for Returns

- **Definition: holding back part of a royalty payment to allow for returns.**
- **Without a reserve a royalty account may be overpaid forever, especially if the book was issued late in a fiscal year.**
- **Chicago adding reserve clause to author contract.**

IRS Rules & Regulations

- **Royalty staff must keep track of:**
 - **Rules about tax documentation**
 - **Flow of forms to authors and completed forms back to Publisher**
- **Best to submit forms along with contract for signature.**
- **Contract is complete only when all completed forms are in the contract file.**

Advances and Expenses Against Royalties

- Royalty staff must track in author's account:
 - Advances to author
 - Expenses to be charged against the account

Chicago Treatment

- ISBN assigned to project before advance given.
- Chicago manages advances and expenses through Financial Accounting System with monthly application to author's account.
- Advantages:
 - Up-to-date accounts
 - Improves chances of recouping charges

Outstanding Checks

Chicago system of managing uncashed royalty checks:

- **Annual report from Comptroller's Office.**
- **Letters to payees requesting information and return of check for reissue.**
- **Affidavit process for missing checks.**
- **Put hold on account if no response to letter.**

Missing Authors

- A current database of author contact is key to managing copyright as well as royalties.
- Means of locating payees:
 - Internet
 - Editors
- Contact located person to confirm he is the missing author.
- Sometimes they do not respond.

Deceased Authors/Estates

- If a search determines an author has died, locating beneficiaries is difficult.
- A will or attorney's statement will establish beneficiaries.
- Request tax documents and set up a new account.
- Complete death notice and add to contract file.

Subsidiary Rights

- **An important income source:**
 - For publishers and authors
 - For older works
- **Re-use disseminates scholar's work:**
 - Republication in a book or article
 - Translation
 - Classroom use

Tracking Permissions Granted

- Tracking permissions for republication and other uses (coursepacks, reserves, corporate) is complex.
 - Agreements made and their terms
 - Payments
- Many university presses lack systems to do so.
- Lost income results.

Subsidiary Licensing

- **Subsidiary licensing includes:**
 - **Translations**
 - **Book clubs**
 - **Reprints**
- **Complex licenses to make and monitor.**
- **Presses must track continually:**
 - **Terms being followed**
 - **Payments**

Foreign Translations

- **Most complicated subsidiary rights agreements to track:**
 - **Language barriers**
 - **Tax documents**
 - **Licensees often ignore terms of license**
 - **Royalty payments often late or not made**

University of Chicago Press System

- Royalty Department collects on all subsidiary rights.
- Monthly AR for permissions is up to \$300,000.
- Many license agreements:
 - 830 active
 - 339 not yet published

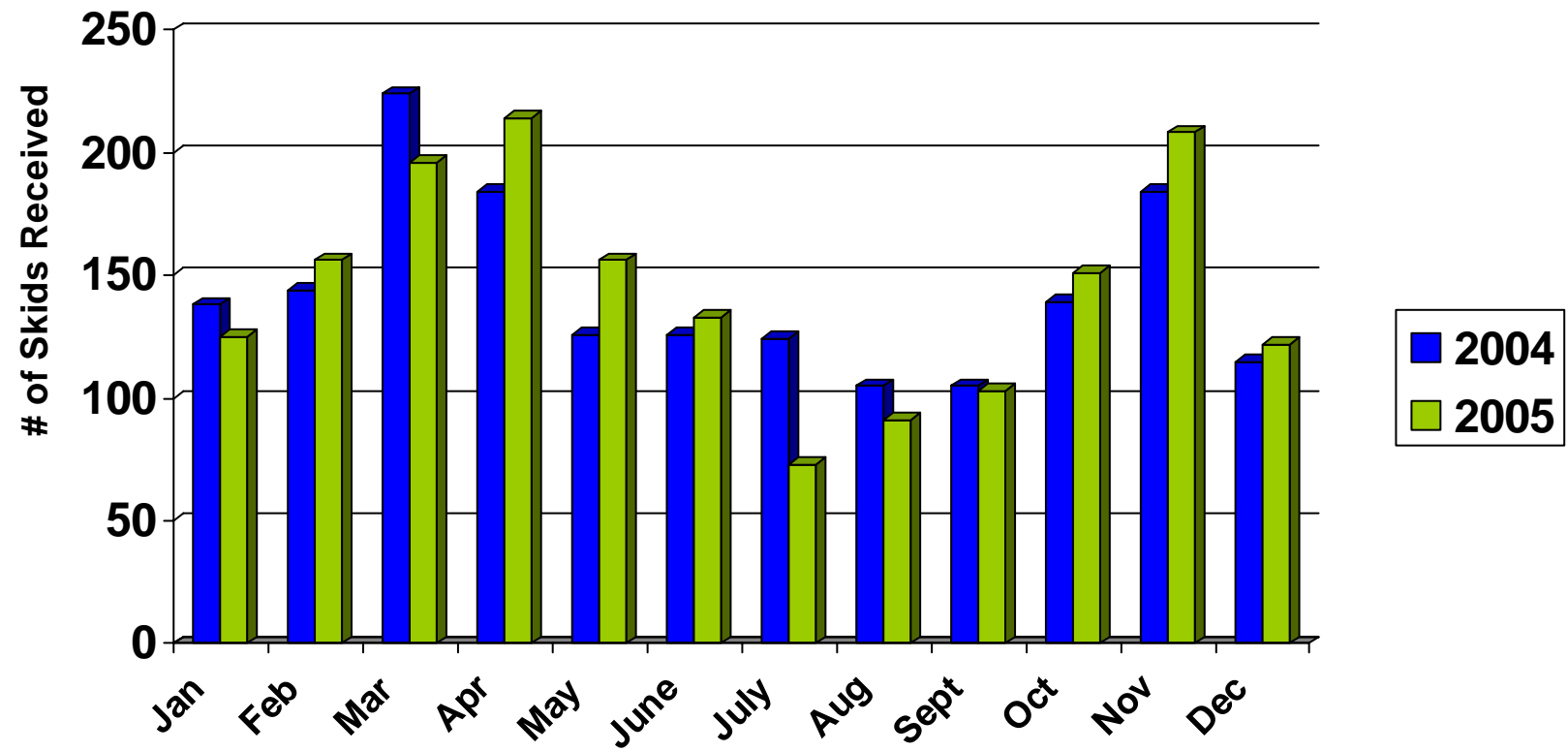
Chicago Rights Database

- **Information System to track:**
 - **Press's rights in books and journals published**
 - **Permissions granted**
 - **Licenses for other subsidiary uses**
- **Database speaks to royalty system.**
- **Enhanced Web version just released.**
- **CDC presses will use later in 2006.**

The Returns Department

- Returns activity affects the Royalty Department.
- Sales during the royalty year determine royalty due.
- If Returns are not current at the end of the royalty year:
 - Sales may be overstated.
 - Royalty payments may be excessive.
 - Press may never recapture royalty over-payment.

Returns Subject to Peaks



CDC Returns Activity

- In calendar 2005 over 1 million units in returns.
- Up nearly 6% from 2004.
- Reflects more titles not worsened returns.
- But Returns Department must handle and Warehouse staff must return units to inventory.

Returns Processing

- A distribution center must process returns:
 - Quickly.
 - Efficiently.
 - Without error.

CDC Returns Department

- \$15 million department; 1% error = \$150,000.
- 12 full-time staff.
- Constant monitoring.
- Continual improvement in processes.

Improved Returns Processes

- Accounting when UPS/FedEx arrive at dock: condition of boxes and repacks.
- Each operator is responsible for balancing chargeback to the credit.
 - Not all books received.
 - Condition of book (salable or not).
 - Sticker damage.
 - Price/discount discrepancies.

Book Re-jacketing

- **Re-jacketing of books.**
 - **Damaged or missing jacket and no new jacket means book must be discarded.**
 - **CDC has new procedures to replace jackets and keep these books available.**

Bar Code Challenges

- New scanners can't scan many bar codes.
- Correct information must be on bar codes.
 - Prices on books.
 - Correct EANs.
- Costly if presses and distribution centers do not catch bad bar codes.
 - Confusion.
 - Charges from vendors.
 - A/R impact.
 - Reprints complicated.