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E-CONTENT IN LIBRARIES

MARKETPLACE PERSPECTIVES

Sue Polanka, Editor

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E-content in Libraries: Marketplace Perspectives

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About the Editor

Sue Polanka created *No Shelf Required*, an award-winning blog about the issues surrounding e-books for librarians and publishers, which led to the best-selling books *No Shelf Required* and *No Shelf Required 2*. She is the head of reference and instruction and interim associate university librarian at the Wright State University Libraries in Dayton, Ohio. She was co-editor with Mirela Roncevic of *eContent Quarterly* in 2013–2014.

Abstract

This report presents an insider's look at the e-content purchasing process among the market players: libraries, publishers, and aggregators. Editor Sue Polanka gathers three articles, one written by a public librarian and two by information industry executives. They demonstrate the complexity of purchasing e-content, present the concerns of different parties, and offer suggestions for working together.

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Chapter 1

Developments in the Library E-content Marketplace

Sue Polanka

In November of 2011, I wrote an article in *Library Technology Reports* about purchasing e-books. In my conclusion, I stated:

> Libraries need to find the content they desire, seek the best price possible, determine sustainable business models, analyze license agreements, and evaluate vendors to effectively purchase e-books. It's a complex labyrinth. But one day, it will be easy.[1]

Here we are, four years later, and we aren't yet ready to press the easy button. Purchasing e-books in many ways has been streamlined, but it still remains a labyrinth of licensing agreements, business models, and prices. Before we take a closer look at the content for this issue of *Library Technology Reports*, let's do a quick review of some of the e-content purchasing innovations and experiments from the last four years.

The push toward easy purchasing of e-content can be seen from many larger aggregators like OverDrive, 3M, Baker & Taylor, EBSCO, ProQuest, and others. These companies have built sophisticated ordering systems for e-books (and other digital content). Libraries can create profiles, set up alerts, get content recommendations, order, invoice, and download from a single portal in many cases. In some instances, libraries can purchase print and electronic content together, in a single transaction. A specific example is Baker & Taylor's Title Source 360 (TS 360). TS 360 provides integrated collection development across formats, allowing libraries to purchase print and electronic content together.

With all of our efforts to simplify, vendors are still experimenting with business models, price points, and licensing terms. Several international newcomers in the field, like Odilo and Total BooX, have provided some innovative options for libraries not seen from some legacy vendors.

Odilo, out of Madrid, was established in 2011 with the objective of specializing in the e-books and e-content sector.[2] With Odilo, libraries are able to create their own library purchasing centers (where libraries buy direct from publishers or other digital content providers) in addition to purchasing content in the open marketplace offered by Odilo. In this model, libraries can, if desired, negotiate directly with publishers for particular business models and pricing. Libraries in Colorado are experimenting with this model currently.

Another newcomer, Total BooX, from Israel, is behind the pay-as-you-read metered e-book service.[3] This innovative service provides e-books to library patrons with no barriers like holds, due dates, use limits, or expiration of content. Total BooX believes in a "fair-for-all" business model, one that compensates publishers and authors for every reading, empowers libraries to monitor their budgets, and provides all parties with invaluable reading reports. Given the low-barrier, pay-as-you-read (per page) model, I am pleasantly surprised to see the growing list of publishers working with Total BooX.

Even long-standing publishers have experimented with new business models and easier ways to license or purchase digital content. Both Gale and DeGruyter launched patron-driven acquisition models based on content accessed in a particular time period. Whether it was for six months or a year, libraries committed a budgetary amount, and the vendors opened the catalog of content to users. At the end of the time period, the library could determine the content used most heavily and choose to maintain permanent access to only that content. While some of these new models were tried

and failed, this demonstrates that there is still much room for innovation in the digital content world.

Open-access content has taken a huge step forward in the last four years as well. OAPEN, DOAB, SciELO, CLACSO, Unglue.it, and Knowledge Unlatched have all been established or expanded in recent years, hosting a variety of open-access scholarly content, much of it in languages other than English as well. Knowledge Unlatched, an organization committed to a sustainable route to open-access scholarly monographs, was a mere idea back in late 2010 and early 2011.[4] It took intensive effort for Frances Pinter to bring her idea to fruition and she has succeeded. Four years later, KU has launched its second round of open-access monographs for academic libraries. The second pilot nearly doubles the number of titles, publishers, and libraries involved.[5]

University presses have changed as well. In the last four years, a number of university press consortia have formed in an effort to combine resources to reach a greater academic audience. Academic libraries now have a variety of options for licensing e-content through these consortia. In addition to the veteran Oxford Scholarship Online, newcomers University Press Content Consortium and Books at JSTOR host thousands of books from multiple university presses.

Another phenomenon that has developed in the last four years is subscription e-book services. Several services have emerged (and some have already disappeared), but the current front-runners include Kindle Unlimited, Scribd, and Oyster. These services are direct to consumer and contain thousands of titles for a small monthly or annual fee. While these may seem far from the scope of libraries, we need to be aware of the rise of these services and the convenience they provide to users. Users will pay for convenience and access; Netflix is a perfect example of the type of success this model can achieve. And it's no secret that downloading e-content from library vendors can be a complicated process. If users lean toward convenience and access and don't mind a small fee, libraries could lose e-book patrons to subscription services.

Regarding users' access to library e-content, we have made progress in easing this time-consuming process as well. Many vendors have released mobile apps, cloud-based reading, or in-browser reading options for patrons. The release of the new OverDrive mobile app in late 2014 was long-awaited, removing the barrier of Adobe Digital Editions authorization from an extremely complex downloading process.

While we aren't yet at easy, we certainly have many more choices in how we purchase and license e-content, not to mention a host of new vendor options. The number of choices should remain and possibly grow as experimentation continues and innovation leads us to new models, new companies, and perhaps even new formats.

In the spirit of e-book licensing, this issue of *Library Technology Reports* presents an insider's look at the e-content purchasing process among librarians, publishers, and aggregators. The report gathers three articles, originally published in *eContent Quarterly*, one written by a librarian and two by information industry executives. Together, these articles demonstrate the many complexities of purchasing e-content and the concerns of different parties and provide suggestions for how we can work better together. Specific themes emerge with each of the three articles as well: forecasting, negotiating, and collaborating. Let's take a look at each piece in more detail.

"Forecasting Public Library E-content Costs," by Joseph Sanchez. Sanchez opens with a historical look at understanding the e-content market and ecosystem. He recognizes that e-content is still in its early stages of development and, while discussing the implications of the first sale doctrine on digital content (as in, it does not apply), states that librarians exhibit naïveté regarding publishers as partners in the procurement of e-content. He urges librarians to recognize the first-sale doctrine as the foundation of our practice and services, while believing that the balance of power is shifting to the publishers. He states that many librarians are unaware that they license content rather than buy it. Many consumers are similarly unaware, and Sanchez states that this confusion is fueled by digital content sites that feature Buy buttons rather than License buttons.

The primary focus of Sanchez's article, however, is "the pressing question" facing public libraries today: how much content that was previously available in physical form will in the future be available only electronically, when will the shift happen, and how will it affect public library budgets? Sanchez answers these questions in his article by sharing the results of an experiment at the Mesa County Public Libraries in Colorado, where he is director. Sanchez forecasts a number of "conservative" assumptions about the eventual migration to digital content (focusing on books). His assumptions, and the numbers and estimates that result, may spark a slight panic in librarians. His point, I believe, is more of a wake-up call to librarians—to think about the business models under which they are licensing content today and how those models and agreements will impact the collections and budgets of the future. Regardless of outcomes, Sanchez concludes, "We should be planning now for the worst scenarios, and be ready to execute those plans when we see which scenario will eventually play out."

"Negotiating with Content Vendors: An Art or a Science?" by Matt Dunie. Dunie, an industry executive with a long list of accomplishments, explores the

process of negotiating for digital content in libraries. Dunie believes that the scale of library scope and budget do not necessarily impact the efficiency of the vendor negotiation process. He sheds light on the negotiation process (both as it is and as it needs to be) between mission-driven institutions (libraries) and profit-driven organizations (vendors). Dunie endorses a documented negotiation process within libraries as opposed to a product review process, citing an ever-expanding product base with fewer library staff as the impetus for establishment of a negotiation process.

So, is negotiation an art or a science? Dunie, of course, does not have the magic answer to this rhetorical question, but he does convey his message about the importance of negotiating in very specific and well-defined language. His honest and open discussion of how vendors determine price components and cost structures (complete with charts and graphs of royalty charts and ten-year sales forecasts) allows librarians to see the purchase process through the eyes of a sales manager. Once we understand how the other side is approaching the sale, it should be much easier for libraries to plan for negotiations. And negotiations, according to Dunie, involve four important facets—objectives, timetables, the right team, and a strategy—combined together, they are essential in making libraries more effective in acquiring products.

"Supplying and Collecting Books: An Uneasy Metamorphosis," by Michael Zeoli. Zeoli, vice president for content development and partner relations at YBP Library Services, reminds us that no player in the e-content ecosystem—be they for-profit corporations or nonprofit institutions—can master the "digital shift" single-handedly. Zeoli states that we (libraries, vendors) are all guilty of "viewing the circumstances of our sectors in isolation, as though they existed separately from the others, so not always appreciating the fact that we share in the same travails and . . . potential rewards." Therefore, Zeoli focuses his article on the relationships among the players in this digital shift—librarians, publishers, aggregators, and other e-content companies. Zeoli identifies three challenges we need to overcome to master the digital shift together. These are isolationism—viewing the e-content shift through a single lens rather than openly sharing and seeking information; content availability—understanding the diverse definitions of what e-content is available to whom, and when; and partnerships—developing trust and cooperation amongst all parties.

With his vast experience as an academic library content provider, Zeoli is also able to provide very specific details of supplying and collecting books in this market. He affords an insider's view on the complex nature of publisher-aggregator-library relationships.

Taken together, these three different writers, subjects, and articles provide a greater understanding of the challenges of acquiring digital content in libraries and of licensing and selling content through publishers. Sanchez brings to light what may be the future of library budgets in regard to e-content. If librarians take the advice of Dunie—to work on better negotiation—and of Zeoli—to create partnerships with all players in the e-content arena—perhaps we can work together to bring a positive future to everyone. And perhaps someday, licensing e-content will be easy.

Notes

1. Sue Polanka, "Purchasing E-books in Libraries: A Maze of Opportunities and Challenges," chapter 1 in "The *No Shelf Required* Guide to E-book Purchasing," *Library Technology Reports* 47, no. 8 (November/December 2011): 7, doi:10.5860/ltr.47n8.
2. Sue Polanka, "OdiloTID Enables Libraries to Directly Negotiate with Publishers for E-books, Following DCL Model," *No Shelf Required* (blog), June 24, 2013, www.libraries.wright.edu/noshelfrequired/2013/06/24/odilotid-enables-libraries-to-directly-negotiate-with-publishers-for-ebooks-following-dcl-model/.
3. Mirela Roncevic, "Total BooX Announces Service Expansion in the United States," *No Shelf Required* (blog), May 28, 2014, www.libraries.wright.edu/noshelfrequired/2014/05/28/total-boox-announces-service-expansion-in-the-united-states/.
4. Sue Polanka, "Open Access eBooks Part Five—Knowledge Unlatched," *No Shelf Required* (blog), October 26, 2012, www.libraries.wright.edu/noshelfrequired/2012/10/26/open-access-ebooks-part-five-knowledge-unlatched/.
5. Sue Polanka, "Knowledge Unlatched Full Report on Proof-of-Concept Pilot for OA Monographs," *No Shelf Required* (blog), January 20, 2015, www.libraries.wright.edu/noshelfrequired/2015/01/20/knowledge-unlatched-full-report-on-proof-of-concept-pilot-for-oa-monographs/.

Chapter 2

Forecasting Public Library E-content Costs

Joseph Sanchez

Editor's Note: This article was originally published in *eContent Quarterly* (March 2014). The e-book market is volatile. Many components of the pricing analysis have changed, some for the better, some not.

Project Gutenberg began creating e-books in 1971, but e-books did not gain any real traction until 2007, when Amazon launched the Kindle. Even in the late 1990s, when e-books were at least on the edge of librarians', academics', and publishers' awareness, it seemed that e-books never would be embraced by the general public. Ultimately, they were, and the questions facing us now are not how viable e-books are, but how much of the book market will be dominated by e-books and whether e-books will replace print books.

This should not have been a surprise, as the music market saw widespread disruption in the 1990s when early e-readers like the Rocket eBook were floundering. Clearly, consumers were interested in the obvious benefits of e-content, and while Sony launched its e-reader first, it was Amazon, the inventor (practically speaking) and leader of online retail, who realized that ease of use and delivery of content would make or break the e-book market. Again, this simple design solution should have been obvious as early peer-to-peer services like Napster and WinMX had proved consumer interest in e-content if a simple enough interface was available. Librarians and information scientists should not have been surprised, as the behavior patterns and adoption of e-content fit nicely within well-established information science and information-seeking behavior. Instead it was Amazon and Apple that met the needs of patrons with a viable electronic ecosystem for their music, video, and even books.

Public librarians were surprised and totally unprepared for the explosive growth of the e-book market in spite of the clear evidence from the music and movie industries. This growth and adoption of e-content was predictable, as information professionals had been subscribing to digital services like EBSCO and Gale for years. Unfortunately, the profession seems to have assumed that those types of e-content would never replace physical content, and would remain a supplemental service to our core service as physical content warehouses. Evidence suggests that librarians finally are starting to realize the bigger-picture issues involving the first-sale doctrine and its lack of application to digital formats, as well as the possibility that digital formats may replace physical ones. The involvement of librarians in new organizations like the Owners' Rights Initiative and several high-profile lawsuits involving (mainly) academic libraries have begun to capture the attention of librarians everywhere. While Art Brodsky's celebrated (and problematic) article in *Wired* does not mention first sale specifically, it discusses the core problems surrounding a lack of first sale for e-content.

The Historical Context

The pressing question facing the profession is how much physical content will be exclusively available electronically, and when will that happen? For public librarians, especially, a third question is how it will affect their budgets. This article will answer those questions using an experiment by Mesa County Public Libraries, Colorado, to forecast a number of conservative assumptions about an eventual migration to e-content, and apply it to the best assumptions we can make about current e-content costs. We chose to use e-books primarily because print books represent the core of our purchases and physical spaces. While acknowledging that databases can and most probably will continue to absorb more of our budget, we

focused on books exclusively, because a transition to digital books would represent the most chaotic transition for us as institutions given that so much of our physical space, human resources, and public perceptions still revolve around print materials. However, in order to understand the forecast, a broad examination of the e-content market and ecosystem is needed.

It is imperative to recognize that the e-content market is in its early stages of development. Any examination of it must be understood in this context. For example, the much-celebrated Pew study published in early 2012—which found library e-book borrowers also buy e-books—lacked any real examination of the *motivation* for purchasing e-books. If the observation about ease of use and interface design is correct, it may be that e-book borrowers are bypassing the demonstrably clunky and click-intensive interface of systems like OverDrive and EBSCO and buying the e-book version out of frustration rather than putting up with subpar, buggy interfaces. ALA President Molly Raphael's comment that "e-book borrowers being buyers is a phenomenon that's true in the print world as well" is a non sequitur. It is a correlation that does not have demonstrated causal links. Rather, she and the rest of the profession are carrying an assumption over from the old physical market into the digital one. Given how spectacularly the profession failed to predict and understand the e-content impetus and its explosive potential, her assertion is suspect at best. The Pew study is best understood and utilized as one snapshot in the chaotic and explosive evolution of a market, rather than a foundational and authoritative examination of said market. Doing otherwise is akin to using an australopithecine as a stand-in for *Homo sapiens*. In other words, don't assume the score at halftime will reflect the final score.

Music is the most mature e-content market and the best one for extrapolating and forecasting potential trends for the rest of the market. This is because we can confidently assume that the last physical format for music, CDs, is in its twilight stage—soon to be replaced entirely by digital formats and niche markets like LPs. While this is common knowledge, it is less remarked upon that digital sales have yet to fill the void left by the decline in CD sales and revenue. Music's "lost decade" is a reference to the period of time between 1996 and 2006 when revenues for the music industry went over a cliff. In February 2011, Michael Degusta argued in *Business Insider* that music revenues were down 64 percent from their peak in 1999. While various estimates differ on the actual amount of lost revenue, the implications were clear: the music industry had been savaged by digitization. Like all statistics, these numbers may be somewhat misleading. For example, the peak period of time referred to may have actually been a bubble in revenue due to the low production costs of CDs, which were sold at a high profit. Regardless, for the industry and the people who relied on it for their livelihood, the impact was real, significant, and is still felt today.

While the sale of singles had a growth curve, it was nowhere near enough to overcome an aggregate loss. Starting in the late 1990s, the music industry experienced a downward sales curve that continued until 2012 when music finally posted an increase in revenue thanks to a growth curve in digital sales (http://www.ifpi.org/content/library/dmr2012.pdf). The growth came in at an anemic 0.3 percent, but it was the first increase for the industry in thirteen years. For reasons already mentioned, this growth must be interpreted cautiously, but a few broader conclusions can be extrapolated from it. From the perspective of librarians who have made the shift from e-content skeptics to nervous anxiety about what trigger event will push content into exclusively digital formats, it should be clear that publishers and Hollywood are afraid of the profit loss the music industry experienced. This seems like a reasonable inference given the catastrophic loss of revenue their music-industry counterparts suffered.

For publishers, it is a careful balancing act of weighing various risks against expected benefits. For example, publishers can reasonably expect to see an increase in total revenue from digitally exclusive print runs even if total sales decline, as almost all of the original investment risks do not apply to e-content. Gone are the analyses, reports, and salaries dedicated to developing a reasonable "print run." Gone are the production and distribution costs. Instead, publishers are looking at marketing and visibility as brick and mortar bookstores continue to lose visibility and market share. As Mike Shatzkin has correctly noted (http://www.idealog.com/blog/marketing-will-replace-editorial-driving-force-behind-publishing-houses), marketing e-books is the critical question publishers are attempting to solve in their attempts to avoid the down curve in revenues the music industry experienced. Regardless, it seems clear that publishers and other content providers/producers are attempting to learn from the music industry and solve some of these questions prior to committing to e-content markets. They know from experience that once digital content is released into the marketplace they lose a certain amount of control of that content regardless of the protective measures taken. Digital content is inherently uncontrollable because copyright law evolved in markets where the reproduction side of the equation involved work and cost. Not so with digital material.

Currently, the first-sale doctrine does not apply to e-content either, which is a much-envied position for copyright holders. Librarians have naively believed for years that publishers were more or less willing partners rather than recognizing the first-sale doctrine as the foundation of our practice and services. Publishers

always have been skeptical of the evidence that print borrowers are also buyers. Without the first-sale doctrine, they are relatively free to shift the balance of power in their direction. Most consumers and librarians are blissfully unaware that they do not "own" any of the digital materials they purchase. The issue is further complicated as vendors like Amazon tend to use the same language on their websites as they do for physical materials. The infamous little orange button says Buy rather than License. Attractive buttons and icons require less time and energy than cumbersome End User License Agreements (EULAs). Yet, every user of legal e-content has agreed to them, most without knowing what they are. EULAs are those cumbersome, small-font, wordy boxes that pop up every time a user installs or sets up a new device/app/vendor. It is the Agree button for text that no one knows, reads, or understands in spite of the clear request to read in the first line below.

Most EULAs contain two main components:

1. A liability clause
2. A license clause

There is a lot of other legalese, but for consumers those are the two most critical components and the most attractive to copyright holders. Because even though all the other language and experiences suggest or imply that the e-content "purchased" is owned by the user, in reality the EULA waives first sale and agrees to a much more restrictive license. Currently, this is how the vast majority of e-content is regulated and distributed.

It is critical to note that none of this developed in a vacuum. Copyright law has long tails, and efforts to reconcile it with the digital world have been ongoing. It became a public issue in the late 1990s, and the Digital Millennium Copyright Act (DMCA) was the first major attempt to address the issue. What is notable is that the DMCA was written in the social, economic, and legal context of peer-to-peer file sharing. File sharing was at the forefront of everyone's thinking, and the DMCA and subsequent thinking focused on protecting the copyright holder's rights rather than other questions that could have taken precedence. It is possible that without piracy as the driving force, a broader perspective might have been taken. This seems reasonable given the 2001 Executive Summary by the United States Copyright Office on the concept of "Digital First Sale." The summary explicitly acknowledges that technology has the capacity to potentially rectify one of the problems with e-content. That is, it can be "reproduced flawlessly" with little effort, placing it far outside the original boundaries envisioned by first sale. The legal doctrine is complicated, but it is easy to understand the situation previously described where publishers do not consider print runs with digital versions, because they are replicated on demand. First sale was developed for a far different market where production costs create real scarcity and physical items can reside with only a finite number of owners. The only way to expand the number of owners would be to replicate (at significant expense) the original item, which is subject to all the rules and regulations of the market.

The 2001 report, while dense, clearly communicates that the concern is not with technology's ability to deal with this replication problem, as even the report acknowledges the possibility of a "forward and delete" technology that could ensure the original file leaves the owner's possession and is transferred to another owner. Rather, the overall concern is the ability of the digital economy to ensure scarcity and control distribution—specifically illegal distribution. ReDigi, the intrepid start-up that attempted to create just such a forward and delete mechanism, recently discovered nothing has changed since 2001 as it lost the initial suit. It is this scenario and these fears that drive the library e-content market, and that will continue to drive it.

Can libraries reasonably forecast and plan for the future given the current uncertainties? Yes *and* no. Yes, because they can extrapolate from the music industry and expect content producers like Hollywood and publishers to fight for a legal environment that favors *their* interests. The epic eighteenth-century battles in England over copyright law are quite instructive in that we see the same two arguments over copyright restrictions being made today by the same parties. Copyright holders argue that loosening copyright will result in less production because it will remove motivations for artists to produce, while the other side argues against the dangers of monopoly and advances a broad ethical concept of "the public good." So libraries can draw a clear line from OverDrive's famous 700 percent increase of 2010 to the state of Kansas's fees to Wiley's recent announcement to limit downloads of articles to "100 full-text article/chapter/encyclopedia entries per day based on the previous day's usage." HarperCollins's twenty-six-loan cap for e-books is best understood in the same light. Libraries should not be surprised anymore, as this type of behavior is to be expected from copyright holders fighting for their own existence and profits. If we add to this the lack of first-sale protection, we can begin to consider what the future *may* look like if the players with power, money, and influence win the battle.

Forecasting E-content in a District Public Library

At Mesa County Public Libraries (MCPL), we decided that there was enough data to project several different forecasts given a number of assumptions we could

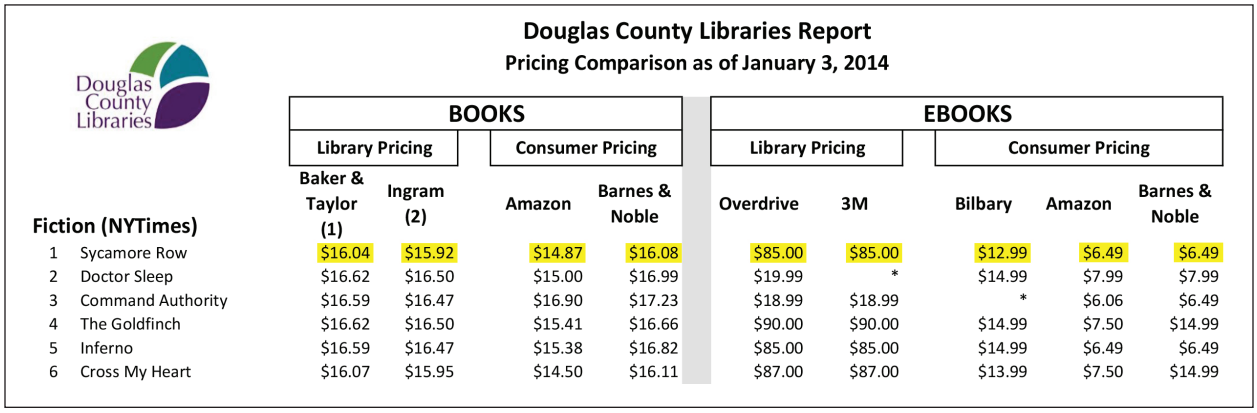
include. Based on the reasoning presented above, it seems sensible to assume that all content producers are motivated to migrate content to digital formats exclusively. Reference materials and pulp fiction are the most obvious choices, as the value of these materials is related to their content and little value is placed in the format or medium. We have seen this most famously with the end of *Encyclopaedia Britannica*'s print editions. *Britannica* is simply emblematic of the larger trend, and is useful only in that it forced many doubters to acknowledge the potential reality facing libraries. It is safe to assume that content producers in all formats are looking at migrating additional content to digital formats exclusively, as they can increase profits and retain greater control of copyright.

Given the examination above, it may seem reasonable to start with our music collection, but we opted against that genre for numerous reasons. First, music does not represent a significant part of our collection and is less critical to patrons than books and movies. Second, library music collections are being rendered irrelevant by online services like Spotify and Pandora. Indeed, some urban libraries are already reporting drops in CD circulation that could be the first signs of the death of library popular music collections. But even in libraries like MCPL where CDs still move, they are not a significant part of our circulation, which corresponds well with libraries across the nation. As has already been argued, the music industry is the most mature digital market and serves as an excellent *indicator*. Because libraries have been so slow to respond to digitization, it is probably too late for libraries to develop plans for digital music given how crowded the market already is and how low the cost is for consumers to enter that market. There is much more that can be said about this issue, but it is outside the scope of this article. Suffice it to say, music is not a good genre for our forecast.

While DVDs represent a significant part of our circulation, we decided to use OverDrive and limit the forecast to e-books. Books represent roughly 50 percent of our circulation in comparison to DVDs, but there are bigger and more compelling reasons for using books as the key indicator. Books loom larger in the image and identity of libraries, and our past, present, and possibly future are deeply tied to their existence. The vast majority of our physical space is dedicated to books, and a disruption in this market threatens our services and identity in ways a loss of DVDs simply cannot match. In spite of all the activity and energy focused on developing new iterations of libraries as place, libraries as services, libraries as outreach, our identities and services remained anchored in books. Specifically, in the physical format of books. This is why e-books continue to dominate our discussions and command our attention, in spite of the clear need for a broader focus on e-content. We were also conscious of this trait among our colleagues and realized that forecasting trends for e-books would have a much greater impact on our colleagues than any other format.

Our first problem was that the market is so volatile. Costs have not been as stable as we would like, which is understandable given the nature of the evolving market. We also have emergent models like the Douglas County "ownership" model that are turning the standard model upside down. The question was how to develop a price model moving forward. Given this instability, the safest route was to look at movie licensing for streaming, which is another model that has enough maturity and stability to provide several clues. First, the industry seems to assume some kind of annual cost model. At its simplest, this takes the form of paying *x* dollars per year per title during the length of the contract. Even in contracts where an entire catalog is licensed this can be the underlying cost model. It is not always, but it *seems* that the industry finds this a satisfactory model. It is critical to note the difference between organizational licensing and individual licensing. While Netflix or Amazon Prime costs a few dollars per month per year per *user*, Amazon and Netflix are gambling that they can distribute their massive annual licensing fee as an organization across millions of users. For most libraries this is an unsustainable model for video content. Only libraries with millions of patrons in their tax base could even entertain such a model. Libraries are too limited geographically and numerically to distribute these types of licensing fees across millions of users like Netflix does. Moreover, as its shrinking digital catalog suggests, this may not be a sustainable model for Netflix either. It remains to be seen if Netflix can continue to offer enough content at its current consumer price to have long-term viability. Also, one of the most commented-upon effects of digitization on distribution markets has been the elimination of traditional middlemen, and Warner Brothers' decision to remove its entire catalog from Netflix evinces a growing awareness on the part of copyright holders that marketing is more important than distribution.

Assuming that e-book licensing will eventually settle into an annual cost per title for libraries, the next relevant question is what those costs will look like. Given the behavior of publishers, notwithstanding Macmillan's and others' willingness to develop more library-friendly models, the behavior of the Big Five publishers indicates an interest in raising the cost per year above the cover price of the print version. While such a suggestion is anathema to librarians, there are legitimate reasons for this model. First, as has been noted previously, there are reasons to doubt the Pew survey that suggests e-book borrowers are also e-book buyers. The more mature digital markets indicate a commodification trend for items that were previously not treated as commodities. The simple act



Douglas County Libraries Report
Pricing Comparison as of January 3, 2014

		BOOKS				EBOOKS				
		Library Pricing		Consumer Pricing		Library Pricing		Consumer Pricing		
	Fiction (NYTimes)	Baker & Taylor (1)	Ingram (2)	Amazon	Barnes & Noble	Overdrive	3M	Bilbary	Amazon	Barnes & Noble
1	Sycamore Row	$16.04	$15.92	$14.87	$16.08	$85.00	$85.00	$12.99	$6.49	$6.49
2	Doctor Sleep	$16.62	$16.50	$15.00	$16.99	$19.99	*	$14.99	$7.99	$7.99
3	Command Authority	$16.59	$16.47	$16.90	$17.23	$18.99	$18.99	*	$6.06	$6.49
4	The Goldfinch	$16.62	$16.50	$15.41	$16.66	$90.00	$90.00	$14.99	$7.50	$14.99
5	Inferno	$16.59	$16.47	$15.38	$16.82	$85.00	$85.00	$14.99	$6.49	$6.49
6	Cross My Heart	$16.07	$15.95	$14.50	$16.11	$87.00	$87.00	$13.99	$7.50	$14.99

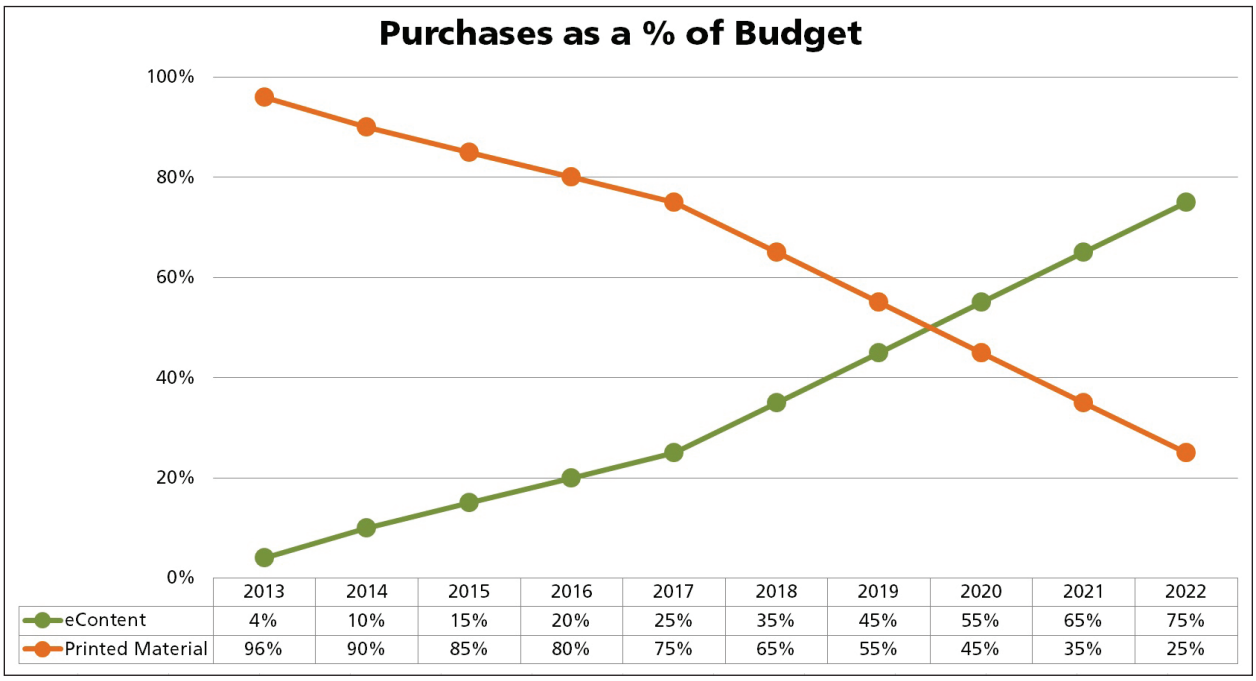
Figure 2.1
Pricing comparisons. For a more current Douglas County Libraries pricing chart, see *American Libraries*, http://americanlibrariesmagazine.org/latest-links/dcl-ebook-report-july-2015.

of digitization is having a significant effect on consumer behaviors and attitudes about that content. What the ultimate result will be remains to be seen, but we have ample evidence suggesting that an ecosystem awash in content is an ecosystem that drives content value down. If consumers begin seeing books as commodities, their motivation to purchase is significantly reduced, provided libraries offer easy access to digital versions. In such an environment, the fears of publishers regarding a negative effect on overall sales is at the very least a reasonable one, justifying a higher annual cost per e-book rather than a lower one.

Over a typical twelve-month period, MCPL pays an average price of $17.98 for any type of print book. The American Library Association does excellent work tracking public and academic library expenditures. Without delving deeply into the data, it is critical to note that MCPL is neither at the high end of the expense curve nor at the bottom, but is fairly representative of the "average" public library. Academic libraries probably report different numbers due to smaller print runs for scholarly materials, but it is safe to assume that the numbers have not shifted drastically at any point in the past few decades. It also is safe to assume that the average price of a print book has steadily crept upward, and that all libraries have been able to make their collection-development budgets work and meet the needs of their patrons within reason. This is not to minimize the pressures libraries have reported in recent years as budgets shrink and costs rise. Rather, it is to set up the stark contrast between challenges in the print age and challenges in the digital age. Using OverDrive's current costs and assuming some of the above forecasting, we placed the average cost of an e-book at $35.85 annually for Mesa County. This is quite different from neighboring Douglas County Libraries numbers in their ongoing reports on average costs of e-books vs. print (see figure 2.1).

The images in figure 2.1 are taken from a pricing comparison Douglas County has conducted the past few years for bestsellers. The goal is to draw awareness to the discrepancy in pricing between e-books and print books. The highlighted field is quite shocking as e-books are generally five to six times as expensive as their print counterparts. The problem is that the numbers are difficult to pin down as various libraries have individual contracts with the vendors and pay different hosting and maintenance fees. MCPL recognized the need to create an *annual* cost for an e-book, because budgets run annually and that number is the one needed to forecast the impact a shift to digital would have on our budgets and collections. We factored in a wide array of variables before developing the $35.85 number reported above. We looked at the average shelf life of their print counterparts, figured in the twenty-six-loan limit for HarperCollins, averaged out or related the cost of lower-circulating items to those that have high circulation, and other variables. Another challenge is that the factored cost per title for hosting and maintenance will actually go down as more titles are purchased. Neither were we able to factor in any kind of reduction in cost for technological advancements, as we have seen little movement away from Adobe Content Server (ACS), and the annual fees for ACS have not been stable the past five years. While we were not able to develop a precise formula for calculating the cost, we eventually settled on $35.85 as a reasonable cost per title per year given current trends and costs. Of course, given the volatility of the market described in the first part of this article, this number could change at any time. What is critical for librarians to understand is the need to begin assessing the actual cost of e-content on an ongoing annual basis, as similar pitfalls are embedded in services like Freegal (music) and Hoopla (pay-per-circ video streaming).

While the initial estimated cover price of e-books is a shock, the real cost is incurred at the annual level.



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
eContent	4%	10%	15%	20%	25%	35%	45%	55%	65%	75%
Printed Material	96%	90%	85%	80%	75%	65%	55%	45%	35%	25%

Figure 2.2
E-content and print purchases as a percentage of budget.

Library budgets have developed in a book market where the first-sale doctrine protected libraries from annual license costs. By using our collection development statistics and annual budgets from the past, we were able to calculate a very accurate average cost per book over a twelve-month period at $17.98. We are extremely confident in this number, because like most libraries we keep meticulous records and calculating that number was fairly straightforward. It means that over a ten-year period we purchased about ten *different* books for $179.80. But in the new annual licensing model, assuming that our estimated cost of $35.85 per year per title is correct, the $179.80 above would pay for only *one title for five years*. It is easier to visualize than read:

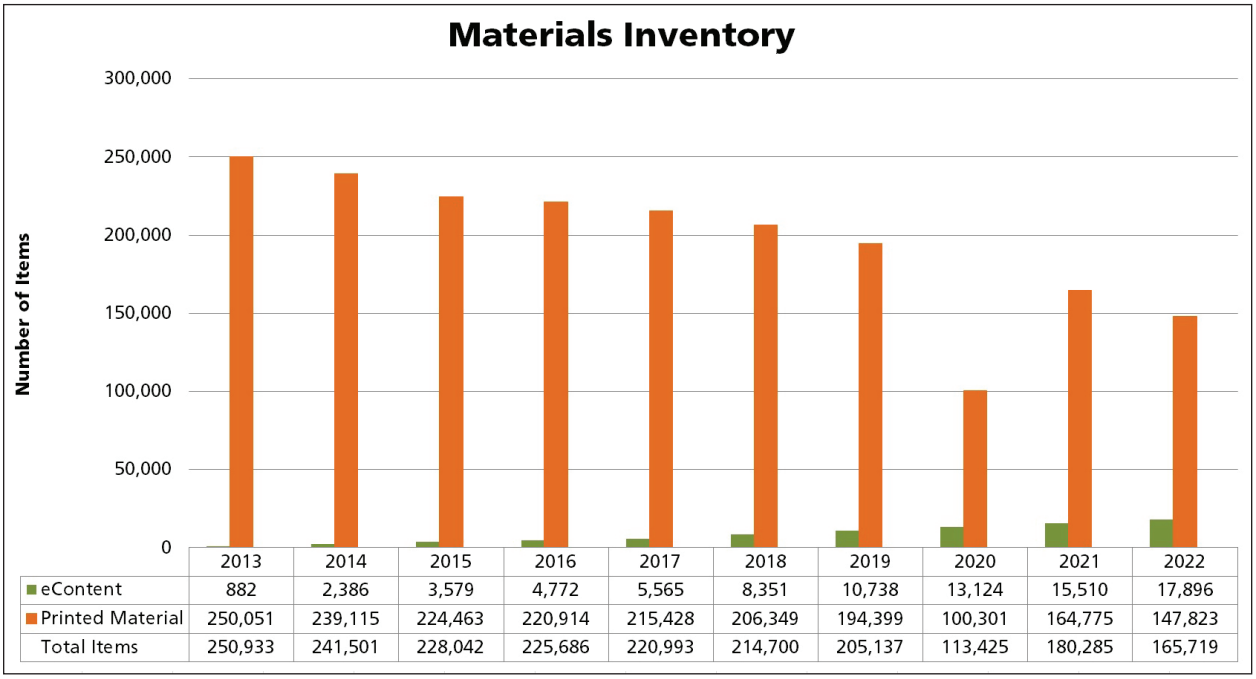
Under first sale:
$17.98 x 10 = $179.80 (for ten different books over any given ten-year period)

Under annual license model:
$179.80 ÷ $35.85 = 5 (five years for one title)

Take the $179.80 spent on ten books over a decade, and divide it by the estimated cost per year for one title, and the real problem surfaces. Libraries would be spending the same amount they normally spend on ten books in ten years on a single book in five years.

If the digitization "trigger" event described earlier occurs, or if the same natural migration happens the way it happened in the music (and potentially video) industry, print books slowly will begin to cease production and be replaced by digital-only versions. This is the question on almost everyone's minds, and it is far beyond the scope of this article. Indeed, we could fill this entire journal issue with articles devoted to the subject and not have done it justice. For reasons already stated, discussion of the "death" of print may be premature, but at the same time it remains a very real possibility. Assuming that this possibility were to take place at a 5 percent migration rate, MCPL would start to see a significant decrease in materials inventory almost immediately. By "5 percent digitization rate" we mean that we are assuming that publishers migrate 5 percent of print books to digital formats exclusively each year. We used a 5 percent digitization rate because it is conservative and resulted in catastrophic results. We also capped it at 20 percent simply to make our calculations easier, and stopped at year nine because the final results were shocking enough without moving to year ten. Because budgets have remained relatively flat over the past five years, we assumed a relatively flat budget over the forecast period. This is a critical assumption because one of the options for libraries would be to increase budgets, but as will become evident, it seems highly unlikely that the type of budget increases libraries would need in a digital market will ever be feasible. It is easier to visualize than describe (see figure 2.2).

We added a 6 percent jump in e-content purchases in 2013 because that reflects our real numbers. Assuming that libraries still will want the digitized titles—and those titles are available—in nine years, e-books



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
eContent	882	2,386	3,579	4,772	5,565	8,351	10,738	13,124	15,510	17,896
Printed Material	250,051	239,115	224,463	220,914	215,428	206,349	194,399	100,301	164,775	147,823
Total Items	250,933	241,501	228,042	225,686	220,993	214,700	205,137	113,425	180,285	165,719

Figure 2.3
Materials inventory.

would make up about 75 percent of our purchases compared to 25 percent for print materials. It seems safe to assume that most public and academic libraries will experience a similar inversion in the amount of print to digital holdings. The graph is intended to show how radically our holdings would change over a nine-year period in a print-to-digital transition.

Things really get grim when looking at what the cost would do to our overall materials inventory. Given the price of e-books and the five-to-one loss ratio described above, libraries will either have to increase their collection development budget by a five-to-one ratio every five years to maintain the same overall number of items and/or weed less. For public libraries where recently published materials represent the bulk of circulation, more and more funds will need to be diverted to those popular items. The problem, however, is that the loss will be significant enough that it cannot be hidden (see figure 2.3).

The graph visually demonstrates the five-to-one item loss over a nine-year forecast. The most obvious visual is that the e-book collection does not grow fast enough to compensate for the loss of print items. The total collection moves from 250,933 down to 165,719 over nine years. This loss actually is less than it would be if we were to continue weeding at the current rate, but we built in a reduction in weeding a few years into it, because we realized that the shelves would start to look bare or we would need to significantly replan the physical space in order to accommodate the loss of items. Ironically, this aggregate loss of items is happening at exactly the same time our patrons are being conditioned to expect more content due to streaming trends. It is possible that libraries will be able to shift music and video budgets into book budgets, since those collections may be irrelevant in this same time period, but such a move to reduce formats goes against the general trends our patrons are experiencing and are conditioned to expect. It is possible to cut databases to pay for e-books, but again, this represents a step backwards toward a significantly less comprehensive collection than before.

For emphasis we put the aggregate loss numbers into a series of pie charts of which the first and last one are presented here (see figure 2.4).

In nine years, we can expect about a 25 percent aggregate loss of materials in our collection. The reduction eventually will slow down when the loss curve and the cost of e-content hit equilibrium, but it is impossible to imagine what will happen to libraries before that happens. In spite of all our efforts to reinvent libraries, our core services still revolve around the lending of materials. Patrons still come to us for content, but if publishers and other content producers finally decide to begin migrating to e-content exclusively, *and* we find ourselves in an annual licensing model, we will not have enough content to satisfy patrons used to unlimited content supplied by YouTube, Spotify, and the like.

Moreover, this forecast does not even begin to address the fundamental problem between our older "one-user-per-item" model and the streaming model

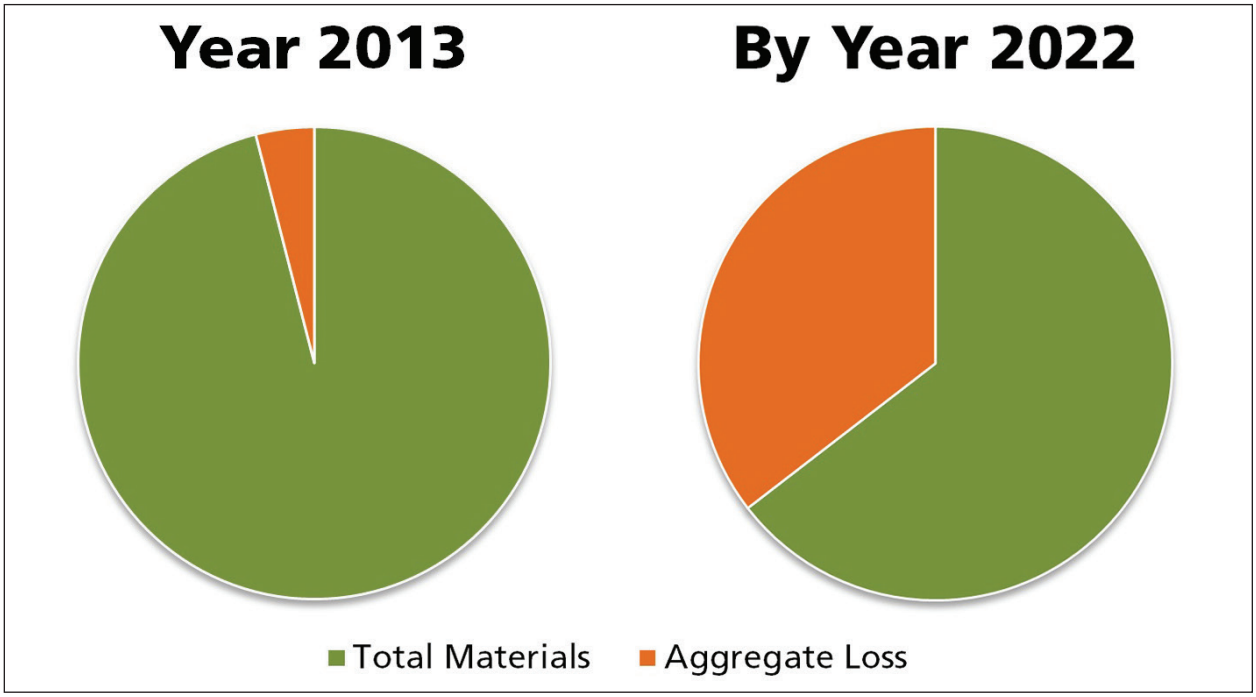


Figure 2.4
Pie charts of aggregate loss of materials.

that has become the mainstay of the online user experience. While new services like Hoopla are offering streaming content to libraries, a quick survey of Hoopla's catalog suggests that libraries might be better off paying staff to simply catalog all of the free content available on YouTube, Crackle, and Hulu. Even if such services required constant checking to see when content goes offline, it may still be more cost-effective than paying for yet one more content silo.

In conclusion, we can hope that the above forecast will prove false for a number of reasons. First, the licensing model for e-content has not been settled and may reach a much friendlier price point than the one outlined here. Second, digital first sale may become a reality. But Hollywood and other powerful players are spending millions of dollars working for a model that benefits their bottom line. Libraries can and should be pursuing their current courses of action, but clearly some other lines of action are warranted. It is also possible that the price forecast here may be overly optimistic, in which case the above scenario gets much worse. Forecasting and futurism are a dangerous and imperfect science, especially in the digital economy. This is due not just to the volatility of the radical changes in the foundational economic assumptions like a loss of scarcity, but also because technology continues to evolve and change at a rate no other historic transition can match. While this forecast is serious and significant, unforeseeable changes in the law, the economy, or technology could render it irrelevant in the very near future. Or it could be a very prescient look forward. Regardless, the dangers facing libraries are clear and significant.

Laws can be made through lobbying or they can be written retroactively as a response to an existing situation. Getting out in front of the law the way Douglas County Libraries has done is a critical step, as it demonstrates both market viability and proof of concept to wary content producers. Finally, libraries need to rethink their services and organizations from the ground up. Once content begins making the migration to digital-exclusive formats, everything from our service model to our personnel and hiring and our physical footprint will be challenged. Librarians too often approach these challenges as if they are superficial changes rather than comprehensive ones. Everything we have known will be challenged in a digital world, and we should begin making contingency plans now, because, as we saw in the forecast above, we cannot pretend to survive with 25 percent of our content gone in nine years. We should be planning now for the worst scenarios, and be ready to execute those plans when we see which scenario will eventually play out in the wait for digitization. Above all, we need to advocate and negotiate for an affordable pricing model regardless of what the eventual outcome is.

About the Author

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Chapter 3

Negotiating with Content Vendors

An Art or a Science?

Matt Dunie

Editor's Note: This article was originally published in *eContent Quarterly* (June 2014).

Libraries spend millions of dollars to purchase huge amounts of content and sophisticated technology to fulfill their mission. Some deal with hundreds of vendors every year, others with only a few. All of these vendors are crucial to positive user experiences of library content and services. But the scale of library scope and budget does not necessarily impact the efficiency of the vendor negotiation process. This article examines the need for a more documented negotiation process, with specific review points and measurement concepts illustrating the opportunities in making vendor negotiations yield more value for the library organization. We will examine some of the economic value components and motivations from the vendor side of the negotiation process and how those drivers impact customers' buying patterns but may also lead to opportunities. In addition, we will explore and explain at a high level some of the business models vendors employ and how they may impact sale price and, in turn, purchasing behavior. The article will take a "commercial approach" to the purchasing of library-oriented content and technology. It will examine business models, components of negotiations for content or technology, commercial drivers, and economic value arguments that are part of every negotiation but not always recognized. My opinions are based on more than two decades of experience in the information industry as a line employee, senior executive, manager, and founder of various information and technology businesses.

Before we get into details about the business side, it is important to work from a common vocabulary. While the library and the vendor segments are more collaborative than many industry markets, the vernacular used internally is not necessarily common. Throughout the article, there are terms that are standard commercial lingo, but not always standard in this customer base. In the interest of "speaking the same language," let's define some terms for the purpose of this article:

- **Aggregator**—An aggregator may be a publisher, but it produces large compilations of related material, generally curated with subject matter expertise–driven editorial policies. It may include creation of metadata used as finding and explanatory aids and licensed as well as unlicensed content.
- **Commission**—Variable compensation typically paid to revenue-producing employees or a discount offered to sales agencies by manufacturers to compensate them for their efforts in selling the manufacturer's products and services.
- **Compensation Plan**—The measurable documentation of the variable compensation or commission opportunities provided to sales staff and others.
- **Contribution**—The amount, after expenses, a product provides to cover other company expenses. Sometimes people use another term, *product line profit and loss*.
- **Cost Structure**—The aggregate costs a department, function, or business has expressed relative to its operating functions.
- **Distribution**—Product and service distribution from manufacturer to customer. Distribution may be direct or indirect. Direct distribution is defined

as a direct path from producer to customer with no third parties involved whatsoever. Indirect distribution is where a third party is involved in the distribution (selling or product provision) function on behalf of the manufacturer.
- **General and Administrative**—These include functions like facilities maintenance, office rent, insurance, executive salaries, some professional expenses such as legal fees, and so on.
- **Imperatives**—Actions that must be completed.
- **Incremental Cost**—The cost to provide an incremental unit of a product to a customer. The incremental cost will likely be much lower than the total cost of the first unit delivered.
- **Marketing Mix**—Also referred to as the *Four Ps* (price, product, place, promotion). *Product* is defined by its features, benefits, and capabilities. Included in product are the aspects of packaging and design. *Price* is the cost of the product and the price model. *Place* is the point of delivery, how it is sold and how it will be delivered. *Promotion*, which includes all promotion, teaching, education, and so on, is the process of informing the market about the product. Promotion actually includes several components: sales, public relations, advertising, and marketing, among others.
- **Market Segment/Sector**—A defined section of an industry. The library market can be defined by types, sizes, focus, or geographic section. For example, the academic library market is really a segment of the overall library market.
- **Net Growth**—Businesses measure growth. Net growth can be measured as growth in an existing account, or overall growth vs. a previous period, generally a quarter or year in duration.
- **New Sales**—New sales to a new customer or new sales of a product to an existing customer.
- **Perpetual Rights License**—A license to use content or software for perpetuity. This license does not provide ownership to a buyer, but rather, it provides the right for the buyer to use it as if they own the product. It typically does not transfer ownership rights such as copyrights. The license specifically details the rights that are granted to the customer.
- **Price Components**—The individual components that make up a price such as royalties, technology fees, contribution, and so on.
- **Product Management**—The function of product creation from beginning to end. Product management includes inception, design, development, distribution, financial modeling, and performance measures.

There are several environmental points of reference we must use:

- The library market segment, as a whole, is a slow-growth industry. It is almost a zero-sum game in financial terms. The cost of creating and distributing information technology has declined dramatically over the past two decades.
- The migration of print to digital content and the evolution of digital-first (or -only) products have resulted in more products available and targeted to libraries than ever before.

Let's look at some of details behind these statements. According to the Department of Education Academic Libraries Survey, expenditures for information resources continue to rise, growing 7 percent from the 2008 to 2010 academic years. In fact, most categories of electronic materials showed modest increases from the previous period. Imagine the joy that brings to publishers of business planning processes. And expenditures for bibliographic utilities, networks, and consortia also increased by 4 percent, again reason for excitement if you are in any of those businesses or provide products and technology through those mechanisms.

But something about these numbers does not mesh with what we hear in the marketplace. The anecdotal evidence suggests that budgets have been under severe pressure. Customers tell us: "If I want to add something to my collection, I have to figure out what has to be discontinued." If you are selling technology products targeted toward libraries, you would have found the market to be especially tight; budget dollars for expenditures for computer hardware were down just over 10 percent from the previous reporting period. But there is a big push in this category and new product announcements all the time. And this is a mature segment, almost fully saturated as total expenditures for academic libraries have flattened since 2008, showing literally no growth. As table 3.1 shows, there was less than ½ of 1 percent growth from 2008 to 2010, and under 3 percent growth from 2010 to 2012. If we were to assume that prices increased over the same period equal to the rate of inflation, the total expenditures would actually be a decline in buying power of almost 6 percent.

How are content and technology being paid for? Simple: other spending categories are down. Among the categories that have declined since 2008: number of branches, number of librarians, number of paid staff, expenditures for preservation, and so on. Table 3.2 shows a sampling of line item reductions.

Yet, even during severe economic periods, libraries continued to acquire content at similar rates as they did in previous years. Some content categories grew tremendously while the growth in others declined. Generally, year in and year out, libraries increase their collections by some amount. In recent years there have been large increases in acquisitions of e-books, for example.

Table 3.1. Total Academic Library Expenditures

	2008	2010	2012
Top 500 Academic Library Aggregate Total Expenditures	4,981,437,070	5,003,854,991	5,143,780,237
Percentage Change Year to Year		0.45%	2.80%
Percentage Change 2008–2012			3.26%
Five-Year Inflation Rate			9.3%

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Total Expenditures | Country: USA – [Data-file]. Retrieved from www.data-planet.com, Dataset-ID: 017-015-024. doi:10.6068/DP1443140BCFA0.

Data-Planet by Conquest Systems, Inc. (2014). Bureau of Labor Statistics. Inflation rate: 3 Year | Country: USA | Consumer Item: All items – [Data-file]. Retrieved from www.data-planet.com, Dataset-ID: 002-010-002. doi:10.6068/DP144755AAEB314.

Table 3.2. Sample of High-Level Trends from Most Recent Three Academic Library Statistics Surveys

	2008	2010	2012
Librarians & Professional Staff Count	21,514	21,137	20,346
Total FTE Staff	60,070	56,733	54,418
Expenditures for Preservation	$37,335,518	$28,084,930	$24,155,598

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Expenditures for Preservation | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-019. doi:10.6068/DP144758AB8E816.

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Staff Count - Total FTE Staff | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-007. doi:10.6068/DP144332C8E6B80.

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Expenditures for Preservation | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-019. doi:10.6068/DP144332C9CDD81.

If we were to work on the top line numbers alone, this industry appears to be stable and mature. Even during periods of great financial turmoil, the industry maintained a similar growth rate as in previous years, probably due to the advent of the print-to-digital and then digital-first content production impact. When you dig deeper into the numbers, you will find that some categories of new content acquisition have declined significantly, and they have been replaced by other categories—more varied offerings of digital content. The shift to digital content has been obvious for more than twenty years, but it is continuing in new media types, such as audiovisual content and raw data. But the business terms for new forms and formats of content and the expertise necessary to negotiate the requisite contracts must evolve as well. Content delivered in multiple formats, via multiple technology platforms, which enable broader access, are licensed under different business models that are evolving constantly. For example, when a library acquires perpetual access rights to a content collection, are there specific technology rights that must be negotiated? What is the business model that is used to determine the real value of the sale to the provider and the customer? Perhaps there is a technology company which acts as a third party for distribution and maintenance of the content. Or a third-party escrow holder for computer code and/or content. How are these items considered in the acquisitions process, or documented in the contract?

The market is much more complex than the top line numbers make it appear. It is a collegial and mission-driven marketplace where the customers must be able to adapt quickly to changing terms and new business requirements on an ever-expanding product base with few staff. Why not use the same tools and strategies the vendors use? The additional effectiveness in negotiations will result in greater competition, new product categories, and more innovative solutions for the customer base as well as growth opportunities for the vendors.

Price Components and Cost Structure

The end result of any negotiation with vendors is a contract, license, or agreement for products or services and delivery of the same. As the industry has migrated to more technologically involved and curated content offerings, product business models changed, and clarity in pricing has become more infrequent. In fact, I would suggest that some pricing philosophies are more opaque intentionally. Yes, there are "price lists," but there are also "price calculators," intricate spreadsheets with multitudes of options with which salespeople must confer in order to develop a price proposal for a more complex offering. And when customers purchase as a consortium or through a buying group, vendors have a need to customize price modeling based on a myriad of factors.

Table 3.3. Price Components and Cost Structure

Content Product	Technology Product
Editorial staff	IT staff
Content royalties	Technology licenses/royalties
Technology development/licenses	Project management
If printed: paper, printing, binding	Product management
Cost of sales, service, and support	Marketing
Cost of distribution (technology/shipping/distribution)	Cost of sales
General and administrative	General and administrative

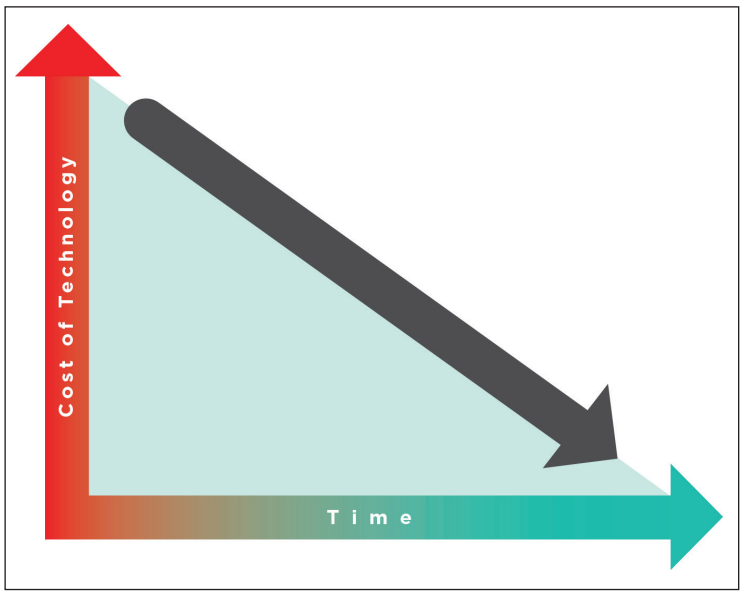

Figure 3.1
Basic cost of technology (to perform the same function) over time.

Price can be determined by the producer in a number of ways, but generally, it depends upon a few components: product cost, labor, cost of promotion/sales, target margin contribution. In the information industry, these items may look similar to the lists in table 3.3.

While the cost structures in the information industry may look like most any business, there are some unique attributes to this industry, whether print or electronic:

- Once content is produced, it can be sold many times, thus creating a long-term revenue stream and releasing the content production function to create more content.
- Cost of distribution declines over time for electronic products.
- Cost of technology becomes less expensive over time, reducing overall technology costs for the provider. Exceptions: if the provider is a leading-edge technology company or if the company has a significant R&D component to its cost structure. See figure 3.1.

Similarly, certain costs go down as the business grows. There are many different types of royalties and royalty calculations: fixed royalty, minimum guarantee, unlimited rights, usage based, and so on. Let's examine a simple royalty structure for a content product. We will call it a fixed price royalty: An agreement is made to pay an annual fee (or a one-time fee) for the rights to the content regardless of revenue associated with the product. In this case, as product sales amass, the royalty stays fixed, and no matter what the sales are for a particular product, the royalty will be fixed. In this case, we will use a number of $10,000, per annum. And we will assume the product sales grow quickly, from zero to $250,000 over five years (see figure 3.2).

If the royalty is not fixed, but variable based on a sales percentage, the chart would look different (see figure 3.3).

In either case, the vendor has a lot of margin to use in paying the other costs of the product, but also, very different profit opportunities. Similarly, a recurring revenue product builds in value for the provider, and product costs are lower for renewal in many categories. Costs that are reduced on renewals include cost of sales, incremental cost of development, distribution commissions, and incremental cost of distribution technology.

Businesses do much research and make projections based on market analysis, product costs, and the like. Included in those projections are target profit metrics they look to achieve, along with revenue objectives for each component in their product mix. Various price analyses are considered to arrive at a price the company believes the market will pay for its products.

Business Models

There are lots of economic models vendors can present. Below are some that are popular:

- recurring revenue vs. one-time purchase
- bundle pricing
- time and materials
- evergreen (items reordered frequently, but not categorized as subscription)

For the purpose of this discussion, we will concentrate on recurring revenue and one-time purchase models.

Recurring Revenue—Annual Subscription

There is no secret that recurring revenue can be a powerful force.

Assumption: product selling price is $1,000 per year, with a 90 percent renewal rate and a 5 percent price increase.

The customer looks at this as a $1,000 serial commitment, and may budget a price increase from year to year. It might look like table 3.4.

But the company looks at it a little differently. The vendor looks at this opportunity in terms of the product's total customer base. Table 3.5 shows several of the other factors a company takes into consideration relative to price. Thus, while a single customer may look at the product as a $1,000 annual obligation in the beginning, the vendor looks at this example as $50,000 initial product line revenue with the potential of generating more than $300,000 in the seventh year.

A company selling a product for a price, say $1,000, which renews every year, is very different from a single purchase of $1,000. But, since the costs are lower for renewal sales than new sales, the out years are much more profitable than the first year for the company. And when you add a modest price increase every year (in some cases not so modest), then the $1,000 sale can become a sale valued at more than $12,500 if renewed for nine years. This works the same for content products or technology products. However, technology products have differing recurring revenue calculations. Namely, there may be a premium charge on the first year with a ~20 percent annual maintenance fee on the out years.

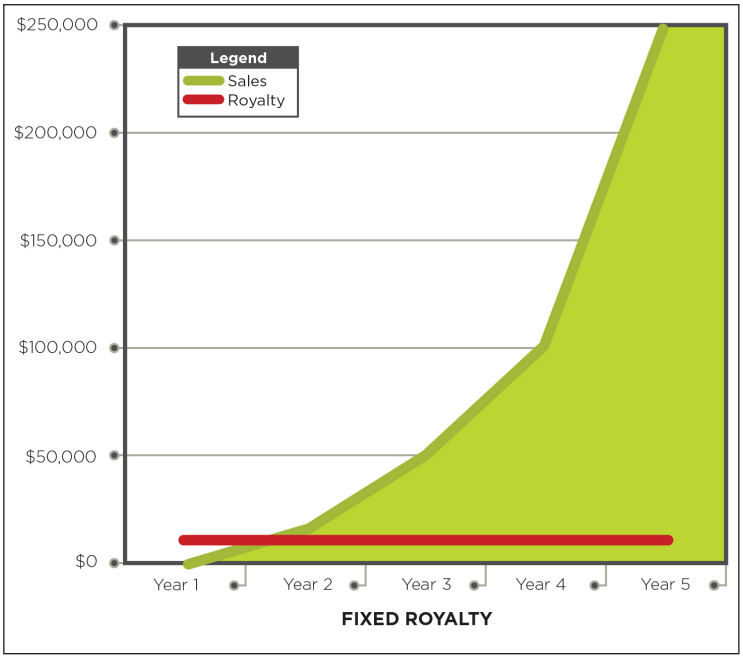

Figure 3.2
Fixed-price royalty.

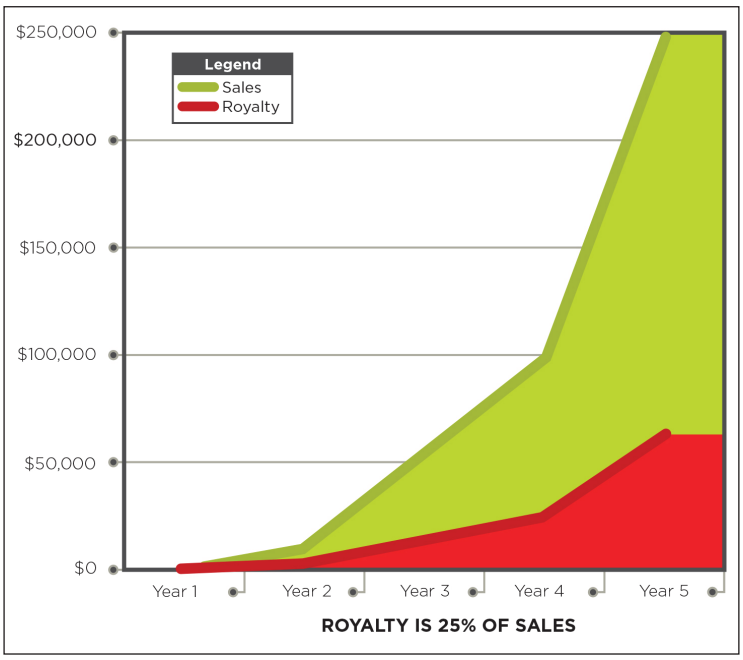

Figure 3.3
Royalty at 25 percent.

First Year Purchase with Annual Maintenance

The one-time purchase/maintenance model works exactly the same as above. However, the purchase/maintenance model is a little different. It may be less costly to the customer over time than the annual subscription model, but the company must depend on a longer product life cycle and greater annual sales volume or a much higher initial sales price to make up the difference. The solution to this is to add new modules that fall outside the purview of maintenance.

When the vendor adds a new module, it becomes part of the product, but for an additional cost . . . and

Table 3.4. Annual Subscription—Example of Year-to-Year Budgeting

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551

Table 3.5. Simple Subscription Product Pro-Forma

Annual Subscription	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Selling Price	1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551
Number of New Accounts	50	150	150	150	150	150	150	150	150	150
Total New Sales	50,000	105,000	110,250	115,763	121,551	127,628	134,010	140,710	147,746	155,133
Total Renew Sales		47,250	148,838	156,279	164,093	172,298	180,913	189,959	199,456	209,429
Total Sales	50,000	152,250	259,088	272,042	285,644	299,926	314,922	330,669	347,202	364,562
Cumulative Sales		202,250	411,338	531,129	557,686	585,570	614,849	645,591	677,871	711,764

Table 3.6. One-Time Purchase

Purchase Maintenance	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Selling Price	1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551
Number of New Accounts	50	150	150	150	150	150	150	150	150	150
Total New Sales	50,000	105,000	110,250	115,763	121,551	127,628	134,010	140,710	147,746	155,133
Total Renew Sales		10,000	31,500	33,075	34,729	36,465	38,288	40,203	42,213	44,324
Total Sales	50,000	115,000	141,750	148,838	156,279	164,093	172,298	180,913	189,959	199,456
Cumulative Sales		165,000	256,750	290,588	305,117	320,373	336,391	353,211	370,871	389,415

then may or may not add onto the annual maintenance cost of the product as a whole.

One-Time Purchase

When negotiating for content or technology products with vendors, it is important to understand their business models in order to negotiate effectively. Otherwise, you are negotiating against an unknown target, and price quotes are meaningless, as are the discounts offered in an indefensible price quotation.

A one-time purchase agreement where no additional modules are projected can be a great deal. Generally, the company will multiply the annual license price by five to arrive at the perpetual rights price. In addition, there may be an annual "access" fee that is required to enable access to the content. This model works well until the time comes where the aggregate "access fees" add up to the equivalent of the annual lease or until a new module of the product becomes available and it is another 5x premium on the base price (see table 3.6).

What is frequently overlooked in this negotiation are the technical details of the content and the customer's rights with regard to accessing the content under the terms of the license. Perhaps the customer wants to have a third-party technology partner load the content on a hosted platform and manage access on behalf of the customer. And to load that content on any platform of their choice. After all, the customer has paid for perpetual access rights to the content. In reality, some vendors place restrictions on this opportunity to preserve their technical interaction with the customer. Or maybe the customer did not ask for the source code, or content to be placed in a third-party repository or held in escrow, in the event there is a liquidation or the vendor's systems are destroyed for some reason.

One-time purchase negotiations may be easier than annual licenses, but the final agreement does not always contemplate long-term access, escrows, multiple platform access, editorial or content fixes, or other items that may be important to different customers.

The Negotiation

Now that we know more about the company's cost structure, we can start negotiating. When a customer is buying anything, it is making a purchase decision based on a number of variables: budget availability, need, constituent pressure, relationships with vendors, and so on.

The library is a mission-centric organization, whereas the business is a financial-centric organization. Regardless of the company mission statements and tag lines, tax status, or otherwise, it is in business

Table 3.7. Customer Negotiation Objectives

Renewal rate	Target renewal rate increase cap at 3%, accept 4%
Rights to technology	Adhere to organization policy of technology deposit in escrow managed by third party
Ensure rights to third-party technology	Legal clause stating rights, indemnification clause
Provide periodic check on deliverables	Document all development promises or provide financial or development mechanism for make-up in contract
Maximize return on budget spend	Quantify metrics associated with projected dollars to acquire product

for financial reasons. It has financial goals and objectives as well as other "soft" objectives which cannot be met without first achieving the financial requirements of the business.

The ground rules, thus, are as follows:

- Information professionals are required to negotiate with an array of vendors for content, technology, equipment, terms and conditions, licensing, training, and price.
- If it is not documented, it cannot be measured.
- Successful negotiations will result in more budget dollars available for new products and services.

The sheer number of products and services offered to the library market is staggering. In addition to external organizations, libraries must also deal with internal organizations: government entities, shared service vendors, facilities departments, administration, political positions, development partners, and various other constituencies.

Vendors spend huge amounts on training and educating their sales staffs on negotiation skills. In recent research I have done, I learned that libraries rarely spend much, if anything, on negotiation skills for their staff. Yet, they are tasked with managing millions of dollars for product acquisition, technology implementation, outreach, and community engagement and instruction.

According to an article in the *Journal of Personal Selling and Sales Management* from 1996, companies spend tens of thousands of dollars training and educating each member of their sales staff (Dubinsky, Alan J. "Some Assumptions about the Effectiveness of Sales Training." *The Journal of Personal Selling and Sales Management* [1996]: 67–76).

Companies also use sophisticated software to track all interactions with customers and prospects. This software tracks contact names, product interests, notes, e-mails; almost every communication between customers and the company can be entered into the system. In fact, vendors spend time and money on sales training, systems, and modeling before they ever make a presentation to a customer.

All of this expertise and expense in training commercial staff can be countered to some extent by implementing a few concepts into regular product acquisitions workflow. In the end, a more effective negotiation will ultimately help all parties involved. Customers will be able to acquire more products and services in pursuit of their mission and vendors will be able to find customers for new products and services. Also, due to the increased complexity and size of library collections over the past decade, more process may make it more manageable for the smaller staff size to handle the increase in collection size.

Objectives, Timetables, Team, and Strategy

Objectives, timetables, team, and strategy are the four items that should be part of any planned negotiation:

Team

The team is important. And the team has multiple members. It doesn't matter if you are a large or small organization. There can be multiple teams, but the roles are going to be similar. And the team players can use each other at different points in the negotiation process. Team members include functional responsibilities:

- **Organizer**—the person who organizes the process for that particular negotiation.
- **Financial Authority**—the person responsible for financial calculations and possibly, financial approval recommendation.
- **Technology Authority**—the person responsible for vetting the technology and requirements thereof. This could be the lead of a technology team.
- **Expertise**—the person, subject matter, systems, or process expertise depending on the product or service under contemplation.
- **Legal**—the contracts person. May or may not be an attorney, but must have working knowledge and the ability to go to counsel when necessary.
- **External**—very important. There will be numerous external parties, faculty, community members, and so on who can be helpful to your negotiation. They can be used to do research or gain perspective on company performance.

Table 3.8. Vendor Negotiation Objectives

Maximize revenue	Initial price quote
New product penetration	Yes/No. Is this a new product to your organization
Maintain operating margins	Ask about operating margins, or research the company. May be harder to do, but with the information you have about cost structure, you can make assumptions
Generate long-term revenue opportunities	Renewal/maintenance/platform fees, long-term projection
Establish/maintain positive brand	Survey your team and users

Everybody on the team has a role, but not everybody must attend every vendor meeting. The key to the team is to delegate and utilize expertise at the appropriate time. The key to utilizing the team is to keep the members abreast as to the status of the negotiation or project, so that everyone is working in sync with counterparts on the vendor side. Yes, the vendors also have the same team members; it is just that they are typically represented by one or two vendor representatives. Rest assured, they have the same expertise in their organization guiding their customer-facing staff.

Vendors routinely review customer negotiations. Some vendors will have sales manager reviews weekly or monthly. Some may have "major opportunity" reviews, which go into more detail on larger sales opportunities. Therefore, customers can have the same type of review system in place. Status checks are taken on important negotiations and product acquisitions. These reviews need not last a long time, but they should be prioritized in order of importance.

Regardless of budget cycles, negotiations can take place throughout the year. The year should be defined by the customer's calendar. Vendors love to make "end of year" offers. They may be great deals and may be good for the customer, but more often than not they are based on the vendor's financial calendar, rather than that of the customer.

Objectives

Objectives must be documented, but they need not be overly complex. In fact, the simpler they are, the better. In addition, they must be measureable. For example, if you are negotiating an SaaS product acquisition, you may want to quantify the value components of the product in terms that every member of your team can relate to easily: For example, customer objectives could be:

- a maximum on a renewal increase over time
- ensure rights to the technology in the event of a company default or contract violation
- ensure the vendor has rights to the technology it is reselling to you
- provide periodic checks on deliverables and promises
- maximize return on budget spend

Each of these items can be quantified in simple ways so the entire team can view their individual analysis and detail negotiations within a common frame of reference (see table 3.7).

Meanwhile, customers must assume the vendor has a set of documented objectives as well. A simplistic overview of vendor objectives:

- maximize revenue per account
- establish new product penetration
- maintain operating margins in the range of xx percent
- generate long-term revenue opportunities
- establish/maintain positive brand image

Again, these can be quantified as shown in table 3.8.

Given that you now have both your objectives documented and an assumption about the vendors' objectives, you can create a one-page document that provides a targeted list of items you will negotiate for, with a reasonable chance of success:

- annual license to software/3 percent cap on renewals for up to three years
- performance guarantee with all promised development documented in the contract; repay/makeup mechanism in place
- allocated budget is $xx,xxx for this category—any cost, and long-term projection must fall at or below $xx,xxx
- mutually agree on success metrics

There is a lot of detail behind the simple list, but much of that is dealt with separately. If these items are met and agreed to, both the customer and the vendor will have an equitable relationship, which will in turn engender more business between them in the future and support both the brand image of the vendor and the satisfaction of the libraries' user base.

Timetable

No surprise here, everything has to be managed against the calendar. (See figure 3.4.) There is no specific time interval in this figure, but certain components of product negotiation happen at different times. It may not appear as obvious or straight-line as this

figure indicates, but the objective is to create a calendar that works for the library relative to negotiations. Note that negotiations can be run independent of product and budget reviews. There is no rule of thumb on this, although most managers like to keep them independent, but information collected during one part of the process informs other parts of the process.

Notice where "Price" appears in the process—not in the beginning. The first time you ask for price, you start negotiating on price. Salespeople are trained to recognize this as a "buying signal." Price is based on several factors; simply asking "what is the price?" is not the best way to get the value the product will bring to your organization, nor is it a good way to start a negotiation. A better way to phrase the question is: "How do you defend the price?"

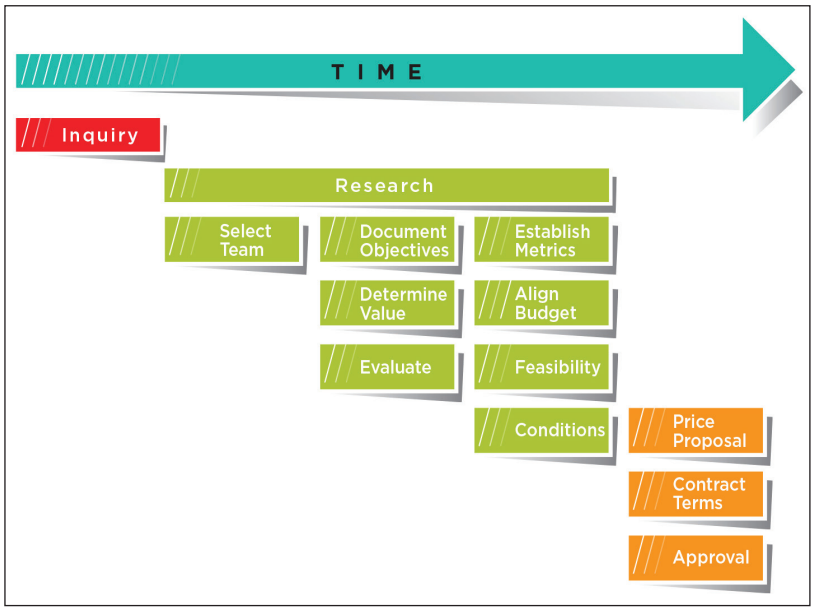

Figure 3.4
Negotiation timetable.

Here we didn't ask what the price is, nor did we start a pricing discussion. We simply wanted to know more about the cost structure of the product or service we are acquiring. Even so, it is better to hold this until the rest of the value components are identified and documented on your negotiation sheet. You also limit your ability to learn more about the product as the vendor becomes more focused on your pricing request. But you may need ballpark figures to put onto your "wish list" or "for evaluation" file.

Well-managed businesses have pricing objectives—that is, they establish a list of objectives the price component of their product is intended to support. For example, a short list of pricing objectives could be:

- establish new customers
- maintain renewal rates
- price to cover cost plus xx percent contribution margin
- simplify price calculations

Items 1 and 2 would generate lower price points and minimize renewal rate increases. Item 3 may be a corporate policy and a management directive, and item 4 could be a requirement to help bring efficiency into the organization, which could in turn, lower the overall cost structure and provide both more profit and more value for customers.

Price defensibility is the ability to explain the makeup of the price, as opposed to a price quote. For example, when you ask for a price, if the answer is something along the lines of "Our price is an FTE-based price depending on the classification of your organization, or population served," you have been given a price model, not a price defense. If the answer includes information about the product's cost components, the added capabilities or content, the investment the company put into creating the product, or other items that actually describe the basis of the price, then the price quote is defensible.

In some instances, price defense is based on current exposure, sales projections among a group, or some unique trait or capability of the product or company or even a development partnership between the customer and the company.

EXTERNAL/INTERNAL PRICE DRIVERS

There are many drivers of price and product—some obvious and others not so obvious—and all of which influence buying opportunities and buying behaviors.

- pressure from authors and providers for increased royalties on every renewal
- pressure from customers on price
- pressure from customers on product quality, currency, and technology deployment
- pressure from distribution channel competition
- pressure from ownership (for-profit and not-for-profit) for increased earnings and profitability
- financial instrument covenants
- sales compensation
- customer pressure from budget tightening
- pressure from customer constituencies requiring specific product acquisitions
- pressure from customer staff required supporting the products

There is a good chance the salesperson calling on the library is thinking of his or her compensation plan, or some other management metric that was put on their shoulders. Well-run companies use their salespeople to gather feedback from customers as well as to promote products and services.

One must recognize that price, on its own, is just a statement of value. When probing questions are asked about price during the negotiation, you will uncover drivers that can be disputed or accepted so long as they are defensible. Almost every driver to price can be quantified in one way or another.

Strategy

In order to negotiate effectively, it is best to start with a defined goal or set of goals to use while negotiating with multiple vendors. In every case, one must define the situation. This is an easy thing to do, but different objectives may rise or fall in importance depending on the situation. For example, a long-term technology acquisition is very different from negotiating for a content aggregation. A simple overview document or negotiation sheet can be generated for all team members to share. This sheet should include the definition of the situation; simple is best. Possible types include new product, renewal, questionable renewal, development partnership, major technology acquisition, minor technology acquisition, and consulting services.

For each of the items on the list, high-level imperatives can be documented. This can be simply documenting directives to be shared among the team: reduce spending in this category by 2 percent; limit renewal increase for 3 years to 5 percent per annum; negotiate source code escrow deposit; or negotiate multiple platform access and secure data delivery for perpetual rights access. Even if you are not successful in achieving a positive result on all of the items, you provide leverage in the process by raising all of the questions.

- **Recognize the leverage points you have**—It is just a matter of economics. Yes, larger customers have more leverage than smaller customers. However, smaller customers have leverage that is not always as recognizable. The library segment represents a large, mostly unnoticed industry. According to the Department of Education, the non-payroll-related academic library market in the U.S. segment is almost $4 billion—that is, total expenditures of about $7 billion, less total wages of $3 billion.

  So, while a large customer can have a direct and meaningful conversation with any vendor at any level of the organization, smaller customers still carry quite a bit of weight, especially when they are able to band together, or use their "word of mouth" power to communicate the positives and negatives of any vendor. There is tremendous leverage in the network of library management. One word of caution—be careful not to violate any confidentiality agreements you may have with your vendors.
- **Price and terms must be defensible**—If I am negotiating with a customer and the request to defend my price comes in, there are two ways we have to defend it. First, we point to the history of the product and the numerous customers that have purchased it at current or higher levels. Second, our sales people are authorized to discuss the cost components of the product: XX percent targeted royalty, XX percent toward technology and R & D, XX percent in content management systems architecture, and so on. All the way to the target profit percentage, of which most goes back into the company as investment in new products, enhancements, staff, and so on.
- **Value**—In the end, the total of the negotiation comes down to the customer's perceptions of the vendor's value proposition. This assessment has to include a holistic view of the product's usefulness and the terms and conditions under which it is acquired.
- **Multiple models**—In particularly difficult or sensitive negotiations, customers can request multiple acquisition models. There may be more than one model available for a given product. Potentially, there are configuration options, finance options, license options, and so on. When requesting multiple models, be prepared to evaluate them against your strategic imperatives and objectives.
- **Quantify as much as possible**—The more you can quantify, the more you have to use in negotiations. For example, let's suppose you are acquiring a new technology for your library. It is popular and useful, but you fear the start-up cost. Quantifying the start-up cost in terms of person-hours, or dollars associated with staff time, hardware requirements, and recurring staff time provides you with an overview cost in addition to the isolated cost of the technology itself. Presenting the total cost to a vendor at the appropriate time may result in the vendor making an adjustment in terms of price, term, or license terms that makes the acquisition more effective for your organization.
- **Leverage the power of buying groups**—There are lots of opportunities to participate with various consortia and buying groups. Most have agreements with vendors, and sometimes customers can demand that vendors work with these organizations.

Putting it Into Practice

As more products are produced for the library market, there will be even more pressure to justify spending. And there will be more pressure on vendors to provide more flexible models. Product acquisition, regardless of industry, is critical to the cost metrics of any organization. Libraries, being mission-driven, are not looked at as a revenue generator, yet they are essential to the mission of any organization they are part of. The proliferation of new products, both content and technology, in the library segment has made the job of negotiations more complex than ever before. A documented negotiation process, as opposed to a product review process, is an essential step in making any organization more effective in acquiring products and services. This doesn't mean that decisions are made centrally, it simply means there is a checklist that must be covered: Are the objectives documented? Have all of the team members provided their feedback? Has the vendor documented deliverables if any promises are made? Are we meeting or exceeding our objectives? Have we created an equitable relationship with the vendor? It is easier to work through difficult negotiations with some understanding of the vendor's cost structures, value proposition, vernacular, and motivations.

About the Author

Matt Dunie is president and co-founder of LabArchives.

Supplying and Collecting Books

An Uneasy Metamorphosis

Michael Zeoli

Author's Note

This article was first published in eContent Quarterly *(September 2013). The central discussion still stands although some of the numbers have changed. As of June 2015, YBP digital book sales have exceeded 25 percent of total sales—up from 15 percent two years ago. The rate of growth has slowed and changed character. More book content than ever is being distributed to academic libraries, but the size of the revenue pie has shrunk significantly. Over the past four years, YBP has distributed $1,000,000,000 in "free books"—a term some publishers have begun to use to describe demand-driven acquisitions (DDA) records owing to very low "trigger" or purchase rates. DDA "records" provide access to the entire text and are not simple MARC records as the name might suggest.*

Jane Schmidt, manager of the Collection Services Team at Ryerson University, has written an excellent article defining the value of DDA in conjunction with (and in the face of) other means of making monograph content available. She notes, "If DDA is a disruptive technology for the collections librarian, it has the potential to be fundamentally altering for publishers."[1]

As I wrote in the original paper, "More content is accessible to patrons, less is being purchased, and publisher and vendor margins are much thinner on eContent owing both to the costs of new digital infrastructure and more partnerships among which to share the diminishing margins. This poses critical challenges for publishers and book vendors."

On average, publishers have seen declines in excess of 20 percent in unit sales and 10 percent in revenue since four years ago. Print sales have diminished by over 25 percent, while digital has increased by more than 100 percent. Though print losses far outweigh digital gains, the equation might be seen as sustainable if the pattern were moving ultimately toward replacement of print revenue with digital and if library budgets were believed to be stable. The transformation of content distribution, combined with trends in institutional change, strongly suggest that neither of these are likely. Over the past year, most publishers have seen slowing growth rates in most digital sales categories and, for the first time, declines in some types of digital sales. This has raised serious concerns among publishers and vendors regarding the sustainability of current models for DDA, and particularly for STL. Looking at the four-year growth of digital sales in isolation does not accurately render the developing trends.

Mergers and acquisitions have continued at an aggressive pace, shifting relationships and opportunities for partnership. Two notions have changed substantially from the original paper: (1) hope in partnership, and (2) the shape of "the library" going forward. Anxiety, acrimony, and partisanship have filled the space for dispassionate discussion and so for the best opportunities for partnership. Focus on short-term and parochial issues has obscured long-term perspective. And secondly, the mission and shape of libraries is undergoing an "uneasy metamorphosis" that places its relationships with publishers and vendors on shifting sands. Carl Straumsheim published an article in Inside Higher Ed *last December that captured some of the unfolding drama. He quotes Patricia Tully, formerly the dean of libraries at Wesleyan University:*

> *It becomes more of a necessity [for a library] to have people who are experts and who pay attention to how*

> *that environment is changing. . . . There will be some institutions that decide that they don't need libraries . . . [or] librarians. . . . The IT department . . . is going to take those [functions, but] they're going to be hiring people who have library expertise [and] backgrounds . . . to do those things. . . . It's a matter of breaking free of the library being some irrelevant, old-fashioned thing that used to be important but isn't anymore.*[2]

Tempora mutantur, nos et mutamur in illis.

This is not a gripping tale of love and loss, or of courage, betrayal, and triumph. Nor is it a moral tale where events unfold according to a cosmic plan. We are companions of the road sharing trials and tales of the first miles. Too often over the past several years, I have woken feeling like Kafka's Gregor Samsa, out of sorts with the world and with myself. People and places are familiar, but our relationships have become unfamiliar and can never return back again. Our world—the world of books, academic publishers, and academic libraries—has undergone a metamorphosis. This article is an attempt to come to grips with the state of this metamorphosis.

YBP Library Services occupies a privileged place in the distribution of scholarly books to academic libraries.[3] We estimate that YBP is responsible for 85 percent of sales of English-language scholarly books to academic libraries in the United States and Canada, and has very significant sales in many other parts of the world as well, including Australia, New Zealand, Hong Kong, and the Middle East. This perch affords us a unique view of the book supply chain and the sweeping changes from print to e-book collecting in academic libraries. YBP observes and measures the effects of the transition from print to digital formats on publishers, e-book aggregators, and a number of other service providers, including the ILS vendors. We regularly share and discuss the data we collect with partners to help shape evolving business models and strategies in publishing, library, and consortia collection development, and other areas of the supply chain. This article is intended as part of our continuing effort to share information, observations, and perspectives.

E-books represent a tsunami in the broad academic library ecosystem. Significant new organizations, platforms, and mergers and acquisitions (many under duress) have appeared in the academic library e-book landscape in little more than a decade. Figure 4.1 shows a brief timeline that may be helpful to get a sense of the acceleration of the wave sweeping our world.

Many other significant developments could be included, such as the appearance of numerous publisher platforms and the emergence of e-book platform providers like iFactory (recently acquired by SAFARI), MetaPress, and Atypon, but the Sisyphean task would lead us away from our discussion, and in truth, even our brief list is likely to be overtaken by new highlights before this article goes to press!

1971	Michael Hart, Project Gutenberg
	YBP Library Services founded
1997	EBL and the California Digital Library founded
1999	ebrary and NetLibrary founded
	Baker & Taylor acquires YBP
2001	Safari and BiblioVault founded
2002	SpringerLink and ABC-CLIO e-book platforms appear
2002–2005	Google Books emerges
	OCLC acquires NetLibrary
	NetLibrary in bankruptcy
2004	MyiLibrary founded
2005	OhioLINK Electronic Book Center appears
2006	Ingram acquires Coutts Information Services and MyiLibrary
2007	Duke University Press offers e-books directly (ebrary Platform)
	Amazon Kindle appears
2008	HathiTrust is founded
	Ontario Council of University Libraries (OCUL) platform
2009	E-books integrated into traditional print Approval Plans
2010	EBSCO acquires NetLibrary
	YBP (Baker & Taylor) acquires Blackwell North America
2011	ProQuest acquires ebrary
	Project MUSE e-books
	Orbis-Cascade develops the first large-scale consortial Demand-Driven Acquisitions plan
2012	JSTOR e-books
2013	ebrary (ProQuest) acquires EBL
	Blackwell UK withdraws from the academic library supply market
2014	Project MUSE and Duke University Press move to Highwire Press

Figure 4.1
Academic library e-book timeline.

Academic publishing and the academic library market have seen a unique set of events unfold over the past decade and there is a widening disequilibrium infecting our shared ecosystem. Each segment of our ecosystem is affected differently, but one is as

clearly connected to the next as day is to night. E-book sales have risen to more than 15 percent of overall YBP book sales and are increasing monthly. Print sales have fallen by the same percentage. It is important to bear in mind that print still represents 85 percent of YBP business and that this holds true for most publishers as well.

In terms of business revenue, the decline in print sales far outweighs sales in digital format. While generally libraries are purchasing less book content these days thanks to leaps forward in technology and economic necessity-as-the-mother-of-cooperation, libraries are making more books available to patrons than ever before through Demand-Driven Acquisitions (DDA), Short-Term Loans (STL), large package deals, and consortial purchasing. In sum, more content is accessible to patrons, less is being purchased, and publisher and vendor margins are much thinner on e-content owing both to the costs of new digital infrastructure and more partnerships among which to share the diminishing margins. This poses critical challenges for publishers and book vendors. Innovation and investment in new technology, while necessarily continuing to support the old, presents challenges that are frequently unsustainable, as some of the mergers and acquisitions we've seen should amply demonstrate.

How are relationships between publishers, vendors/aggregators, and academic libraries shifting? To address the issues and overcome the challenges we are confronting, albeit from different positions, we first need to identify them. I'd like to discuss these in three broad categories: isolationism, content availability, and partnership.

These relationships have been important. Decisions we make in response to our challenges affect our partners. To what degree do these decisions reverberate in the ecosystem and how may they influence our future? While we don't purport to have all the answers (in fact, we admit to having few), we can point to signs posted along the way in these first few flood years.

Isolationism

At the annual Acquisitions Institute at Timberline Lodge this year, one session began with a librarian admitting how surprised she was at the difficulty of winning publisher agreement to participate in a consortial Demand-Drive Acquisitions pilot. Her observation was important and worth sharing as it serves as a good example of the challenge we face. The difficulty in winning publisher participation in consortial DDA projects is common knowledge to vendors and e-book aggregators, and yet we encounter the demand for publisher lists, along with anticipated title counts and pricing, in virtually every consortial RFP or RFI, as though this were an established off-the-shelf product which simply required negotiation on price and service. With much more engagement across segments of the supply chain, what is common knowledge in one part would be better known in other parts; removing some of the surprises would lead to more realistic expectations and better outcomes.

We are all guilty of viewing the circumstances of our sectors in isolation, as though they existed separately from the others, so not always appreciating the fact that we share in the same travails and importantly, in potential rewards. To the extent that downward economic pressure affects libraries, that pressure reverberates all the way back through the supply chain. We each possess unique expertise designed ultimately to enhance the delivery of content. None of us have the luxury of operating in an economic bubble. The same materials and labor costs of maintaining and developing the businesses in one sector apply in other sectors. With few exceptions, none of us are earning "millions upon millions" in this industry. We need to show greater curiosity toward each other and create more opportunity to communicate often and fully with fellow travelers in related sectors of our information supply chain.

In some libraries and consortia, it is standing policy to negotiate directly with publishers for e-content packages (now expanding to include Evidence-Based collecting, an attempt to compete with aggregator Demand-Driven Acquisitions). Price is often the primary criterion. The problems—and additional costs—appear when the content must be managed by the libraries, often leading to requests to the vendor and/or aggregator, who have been bypassed in the business negotiation, to provide part of the solution to the problem (we will discuss these services below in Content Availability).

While the tendency for libraries to go direct to publishers is still strong, it seems to be declining as vendors and e-book aggregators develop the capacity to integrate and manage print and e-content. These services have provided significant value to libraries in the print world and a change in format should not necessarily nullify that value. Still, old habits die hard and opportunities can be persuasive, and publishers also have a justifiable interest in making sales directly whenever possible.

Publishers, in launching proprietary platforms, usually try to market directly to academic libraries initially. After experimenting to find the limits of doing business directly, partnerships are typically established. Publishers make significant and ongoing investments in their digital platforms and have great pressure to recoup their investment. Like libraries, vendors, and aggregators, publishers fall along a spectrum of openness to partnerships. Their perspectives vary as to the best way to protect their investments and to serve their markets. Investment in

Table 4.1. Content Availability

Publisher	# New Print Titles	Simultaneous Publisher Platform	Simultaneous E-book Aggregator 1	Simultaneous E-book Aggregator 2	Simultaneous E-book Aggregator 3
X	2183	657	747	467	590
Y	3134	927	1909	1177	1073

content delivery platforms leads publishers away from their area of expertise, which is the curation of content for distribution. Publishers cannot provide many of the services that pertain to vendors and other service providers, yet there is often an expectation that at least some of these services will be provided when a deal is struck directly with a library. Some examples include duplication control (especially against print, but increasingly with other digital sources as well), DDA and STL support, MARC records, and other value-added services.

Often, larger publishers lack a comprehensive view of their own content universe, owing to corporate structure and technology, and depend on the vendor to provide complete print and e-book title lists as well as purchase data for a library or consortium. The high costs of developing infrastructure and expertise make many of the services offered by vendors and aggregators prohibitive for a publisher to build. Publishers also need to maintain their print infrastructure despite all their investment in digital. Virtually every large publisher in the academic landscape, with possibly a single exception, has moved increasingly to a strategy of partnership and collaboration.

E-book aggregators have greater platform costs than the publishers and many of the service costs of traditional book vendors, which create incentives to work directly with libraries whenever possible. E-book aggregators are expected to provide enhanced tools to integrate and use e-content. They compete aggressively with each other—like the print vendors in decades past—as well as with publishers who tout DRM-free access to their content.[4] Competition in the e-book aggregator environment is intense as evidenced by the several major acquisitions in the past few years. E-book aggregators currently lack a comprehensive view of and ability to manage a publisher's entire content universe and are also blind in regard to a library's print purchasing. These are the primary reasons for partnership with book vendors in meeting library need for comprehensive content coverage and duplication control. Some efforts underway today are aimed at closing that lacunae and may suggest future mergers and acquisitions as well as services.

Partnership is requisite to aggregators and vendors as middlemen. Still, even here there is temptation for organizations to attempt to manage entirely on their own—to their own detriment and disservice to their potential users downstream.

Every organization is afflicted to a greater or lesser degree by tendencies to go it alone, but by overcoming bad inclinations inflamed by bad economics, tradition, ignorance, and fear we can build beneficial partnerships to coordinate resources inside and especially between our organizations.

Content Availability

Understanding content availability (by each sector, and not just to libraries) and related issues plays a critical role in managing content effectively and efficiently across the supply chain. This understanding can be developed only through much greater communication and indeed through real partnerships. What questions should be asked? Which need to be answered? Which are misguided?

Content availability is where the rubber hits the road. In just over two years, we have seen the simultaneous availability of print and e-books move from 6 percent to nearly 40 percent.[5] During the same period, we have seen sales move from fewer than 500 e-books per week to nearly 10,000. An accurate picture of availability, however, is far more nuanced and complex than simply knowing general availability.

Availability is not uniform by publisher, or by vendor, or by e-book aggregator, or by acquisition model, or by the type of library organization (e.g., small liberal arts colleges vs. large state institutions with many branches vs. consortia). Table 4.1 shows two examples. The identities of the publishers presented in table 4.1 have been masked, but they fall within the norm and are representative of the current state of content availability across digital and print formats. Availability shrinks further in titles available for DDA, for Short-Term Loans (STL), and for library consortia.

A *picture* of content availability is still not equivalent to a full understanding of content availability. The meaning of content availability is different to publishers than it is to libraries, and it is different still for vendors, e-book aggregators, and other parts of the information supply chain. What a library or vendor may view as 30 percent simultaneous print and e-book availability may be viewed as 100 percent by the publisher or by an e-book aggregator. From a publisher perspective, 100 percent of the content from its division of its company may indeed be on its platform, or it may have made available 100

Table 4.2. Simultaneous Availability of Print and Digital Content

Publisher	# New Print Titles	Percentage Simultaneous (Best case)	E-book Aggregator 1	E-book Aggregator 2	E-book Aggregator 3	E-book Sales
X	121	3%	$19,503.91	$0.00	$7,746.17	$27,250.08
Y	104	95%	$58,085.74	$34,960.87	$24,303.10	$117,349.71

percent of the titles that could possibly be released in digital format.

Of the approximately 1,400 publishers participating in the YBP approval plan service, just a quarter make any significant part of their content available in digital format (i.e., greater than 10 percent). Of these, just a third have a significant number of titles available simultaneously in print and digital formats—but again, usually not distributed equally across all hosting platforms or under all acquisition models. As in all things, the Pareto principle is in effect. When building a comprehensive collection development strategy, how is a library to acquire, weigh, and weave together all this information?

And for a publisher, what does this information say about its sales and strategies? Paths for publishers, vendors, and aggregators are further clouded by unaligned sales goals and strategies. All parts of the information ecosystem are poorly served by lack of information, misguided goals, and fossilized views of success.

Publishers need to evaluate the costs of maintaining various channel partnerships. Not infrequently, a publisher will begin a digital strategy by making backlist content available via just one e-book aggregator. The reason for this cautious approach is often concern over undermining print sales (still 80–90 percent of sales for most publishers) and the effort of signing license agreements. Participation in DDA is often postponed, and STL availability may be yet another step—all owing to the same concern. Participation in consortial pilots is the furthest step in opening content availability—one rejected by many publishers currently. Being overly cautious is, at least in part, a misguided strategy for most academic publishers, even if driven by legitimate concern.

The primary concerns for publishers and libraries should, in theory, find a natural alignment: library desire is to maximize appropriate content availability for their patrons, while the publishers desire to maximize content sold. By enforcing scarcity, publishers in effect (supported by the evidence) reduce their sales. The issue for publishers is not one of making content available or not, but of doing so sustainably. In evaluating the relative success of publisher digital strategies and the effect on overall sales, let's look at this recent comparison between two presses of similar content focus and quality.

Table 4.2 shows the number of new titles published in 2012 and the greatest percentage available simultaneously via any one of the e-book aggregators. The sales figures are for all available digital content sold in 2012, not just those titles published in 2012. Publisher Y was dramatically more successful in earning a portion of library budgets for digital content. I have not included print sales, but the digital availability appears to have had a positive effect on print sales as well. But if simply making more content available in digital format were all that was required for a successful strategy, the problem would be solved and we could all go home and eat chocolates.

For most libraries, responsible collection development is still required and is not entirely outsourced to patron demand. DDA is, however, a wildly popular tool among libraries for obvious reasons. DDA and STL models provide a fantastic service to their patrons by vastly increasing content availability. YBP delivered over 40,000,000 bibliographic notification slips to libraries worldwide last year. Traditionally, library selectors and faculty review these slips and order a very small percentage. Though many more of the titles "fit" the library profile, to acquire them is simply unaffordable. DDA and STL allow a large percentage of the unselected titles to be made available for potential patron access.

While e-books sold in integrated e-book approval plans and on DDA continue to increase, there is noticeable erosion appearing for the first time in the number of e-book orders placed by libraries. This is raising serious concerns among publishers and vendors alike with regard to the sustainability of current pricing models for DDA and particularly for STL. In recent meetings with some not-for-profit publishers, the average gross revenue on an STL was determined to be just over $2, a sum feasted upon in felicitous convivium with other members in the supply chain. It isn't hard to imagine the fears that these figures arouse when set next to declining print and e-book orders on a spreadsheet. Reference publishers generally do not participate in DDA because they do not expect that a purchase will ever be triggered owing to how the content is used (i.e., quick reference). Some will participate in DDA but withhold their titles from STL for the same reasons. Publishers participating in DDA will frequently exclude reference works or sell them under a separate model.

Table 4.3 shows an example of the typical shift in sales (and so corresponding library purchasing) of print and digital content that academic publishers

Table 4.3. Typical Shift of Print and Digital Content

Year	Print Orders	E-book Orders	DDA Sales	# STLs	STL Sales
2013	$64,670.90	$10,289.94	$3,656.29	313	$2,001.45
2012	$72,504.50	$13,632.02	$2,937.00	169	$1,197.27

are experiencing. The more recent trend of declining e-book orders is also visible as they are deferred to DDA and STL (note too that the average STL sale for this publisher was just $6.50 in 2012).

As a librarian recently explained to colleagues in collection development forum, a better way to evaluate the value of DDA is to measure the number of e-book discovery records delivered to the library (and the value of that content) vs. the dollars actually spent on content via DDA and STL. The per title figure drops much further, even for content from large publishers, when measured in this way. The point is not lost on publishers. Print and e-book orders deferred to DDA and STL, pose the most significant immediate threat to sustainability for publishers and vendors. Based on these trends in library collecting, driven both by the need to provide more content more quickly as well as by downward pressure on library budgets, publishers must now reexamine their strategies and expectations. All the digital apparatus that publishers are required to support today are in addition to, not instead of, print production costs. Still, most publishers have not raised prices significantly from year to year.

We briefly touched on the value of services provided by vendors. Vendors play a central role in the content delivery system and are not immune from the benefits of technology or the economy either. In the print world libraries have always been able to go direct to publishers to garner the highest possible discount. Decades ago, the value of vendors and aggregators was affirmed as libraries far and wide implemented approval book and slip plans, and contracted for technical services support. None of that changes now that digital content is in the mix. In fact, it isn't hard to make the case that vendors are more useful now than ever before when the global costs of making content available in the library are considered.

Content and content metadata are collected up from their various sources including publishers, bibliographic utilities, and libraries and are enriched, managed, and redistributed according to the needs of the various partners mentioned. Managing duplication and library preferences for titles that now regularly appear on four, five, or more digital platforms, in addition to paper and cloth bindings, and from US and UK sources is far from an insignificant job—and now add to this a growing array of collecting models such as print and e-book approval plans, firm and standing orders (with various pricing options including Single-User, Three-User, Unlimited-User with the possibility of upgrading from one level to the next), DDA, STL, collections, subscriptions, and most recently, publisher Evidence-Based Collecting (essentially an effort to compete with e-book aggregator DDA without having to build expensive title-by-title tracking and triggering mechanisms). Supporting these services is extremely complex and the costs are not met by current library sales models.

Unfortunately, the word *just* is often trotted out when publishers and libraries try to negotiate directly but still want to employ the services built and maintained by a vendor, at high cost, to manage duplication: "Can't you just block the titles we have acquired directly from the publisher or reseller X?" "Just" blocking titles is the essence of the vendor business model. "Just" means identifying the appropriate titles as well as those that are not part of the "deal": library by library, publisher by publisher, platform by platform, approval plan by approval plan, and ordering account by ordering account and sometimes standing order by standing order—usually on an ongoing basis, since even the publishers find it near impossible to say in advance what titles may be on a platform in what timeframe.

In sum, each segment of the supply chain is facing significant challenges that are intimately intertwined but often go unseen or unrecognized between our partners. Current perspectives and solutions are fragmentary and yet many of the solutions are within sight and even reach if we could "just" build more cooperative structures.

Partnership

Developing trust and a true spirit of partnership will be the only way forward in an industry beset by the costs of metamorphosis with no cash cow in sight in any pasture near or far.

Outstanding solutions are beginning to emerge to support increased content availability and efficient delivery. Uniformly and by necessity, they are the result of partnerships. Library consortia with long and successful records of cooperation are flourishing anew. Publishers have followed similar paths to fulfill their missions. Project MUSE, Oxford University Press's UPSO, and Cambridge University Press's UPO are just a few examples of university presses working together to support each other and to provide greater value to libraries.

Vendors and e-book aggregators have found partnership to be a natural, if occasionally uncomfortable, fit, as have most publishers with proprietary platforms, who have discovered these relationships to be essential to success with academic libraries.

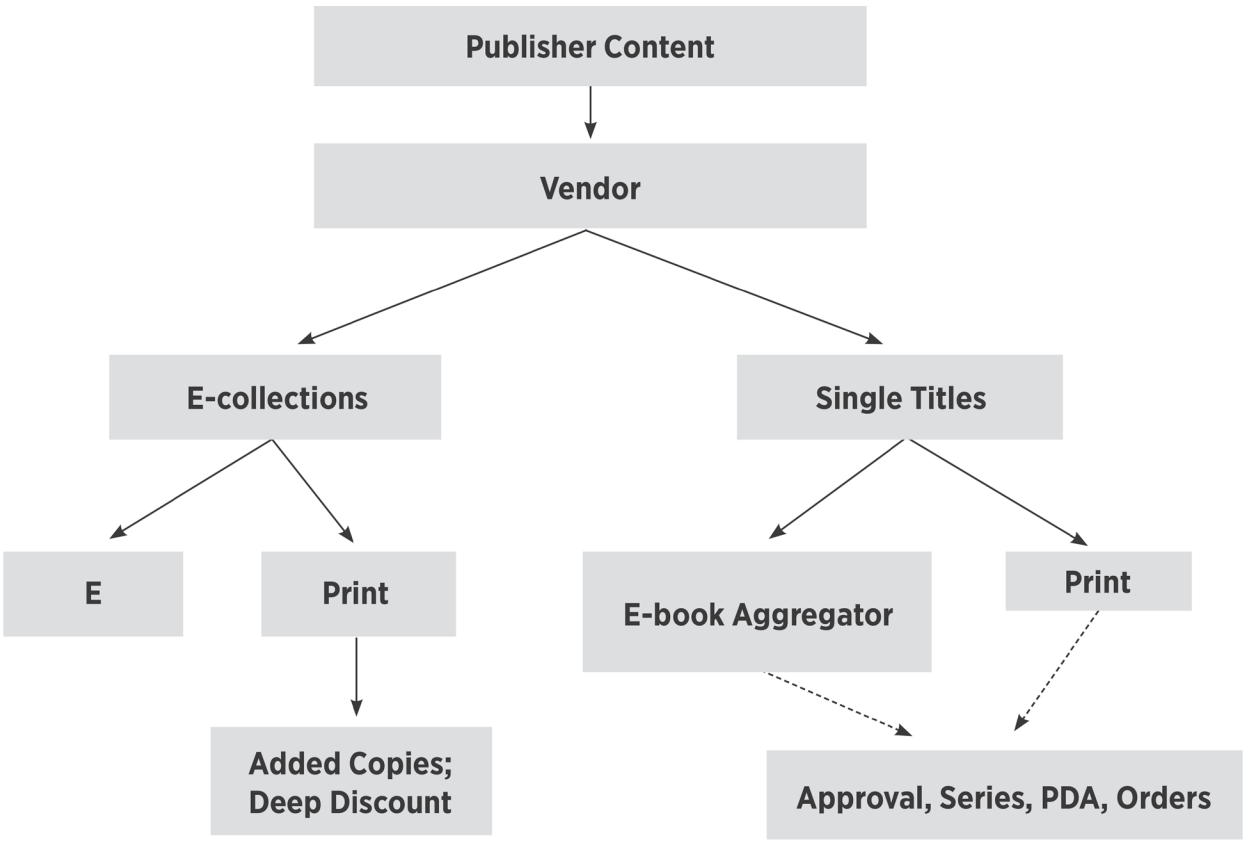

Figure 4.2
MaRLI model for collecting content comprehensively.

These partnerships have often existed primarily within their own market sectors or in very specific cases. Commitment and dedication to working together across sectors is still rare. Much of the partnering we see today can be characterized as frenemy partners drawn together by a specific opportunity. The best of these cross-sector relationships have yielded models that can be widely replicated. The Colby-Bates-Bowdoin Consortium, the Colorado Alliance, MaRLI, Orbis-Cascade, OhioLINK, OCUL, and the TRLN are just a few examples of highly successful partnerships in building innovative cross-sector processes for the comprehensive management of new digital and print content. More importantly, they have replaced suspicion and parochial interests with trust and synergy, the sine qua non of creativity and productivity.

Figure 4.2 depicts a model developed by MaRLI to collect content comprehensively from Oxford University Press and its partners. The model has since been extended to include content from several other major academic publishers. The model considers all Oxford University Press content, print and digital, as well as partner press content. Content is collected in various ways including digital collections, integrated e-book and print approval plans, standing orders, and aggregator e-book platforms. Depending on the type of content and provider, some titles have unlimited user access while others are limited to single or three simultaneous users.

In models such as this, each member of the supply chain contributes its expertise and resources to help the libraries fulfill their mission to their patrons. The degree of cooperation is repaid by each organization's degree of success. In this model, the library has ensured that every title from Oxford and its partner presses has been considered by the consortium and the greatest number of titles possible made available in the appropriate formats. The libraries have also maximized the use of various vendor services for efficiency. Oxford has ensured that every one of its titles, regardless of format, has been considered by the libraries and collected as appropriate—a position many publishers envy. The vendors and aggregators have supplied their expertise and services and thereby demonstrated their value, which is essential to their long-term success and viability.

The model for pricing is evolving from print-based (how much was spent on print) to a mixed model, which includes usage data. Publishers are quick to

point out that print purchasing is not an equal measure for what digital access will be. And management of these models adds another layer of complexity and cost to the old pick-pack-and-ship model of the print world. There is still much to be learned about sustainable pricing from all perspectives.

From the outset, the libraries stated their values, which included all of the points just mentioned and not simply the top-line price of the content. This was a position derived from careful deliberation and experience. The model has been launched with other publishers and in other consortia and large libraries. MaRLI has renewed the agreement for a second year.

Changes are persistent and exempt none of us. They also don't happen by accident but are the result of our decisions. Tradition has tended to keep many of us apart as we strive to remain relevant, but a globalization of sorts has come to our corner of the universe and we cannot afford to maintain parochial views. Benefits and challenges are not equally distributed as digital development spins on. Equilibrium across market sectors has been lost. It is important—and admittedly difficult in current financial circumstances—that decisions take into account effects on other services and organizations vital to our shared environment.

If the sustainability of our ecosystem is important to us, we should work far more cooperatively across the entire supply chain to establish partnerships, processes, and channels of communication. We should work together on new digital distribution and pricing models, currently still based largely on print, that support the full potential of new technology and the value that each of us contribute. The choice is to simply allow a Darwinian survival of the fittest process take its course and deal with the flotsam left in its wake, or to engage proactively in intelligent shared strategies to develop value for all parts of our chain. Perhaps we can rise from our Kafkaesque bed onto our too-skinny legs and find a better future than Gregor Samsa.

Notes

1. Jane Schmidt, "Demand-Driven Acquisitions: The Hegemony of the Canon Interrupted," in *Creating Sustainable Community: The Proceedings of the ACRL 2015 Conference*, edited by Dawn M. Mueller (Chicago: Association of College and Research Libraries, 2015), 172, www.ala.org/acrl/sites/ala.org.acrl/files/content/conferences/confsandpreconfs/2015/Schmidt.pdf.
2. Patricia A Tully, quoted in Carl Straumsheim, "Clash in the Stacks," *Inside Higher Ed*, December 10, 2014, https://www.insidehighered.com/news/2014/12/10/rethinking-library-proves-divisive-topic-many-liberal-arts-institutions.
3. The focus of this paper is books. Discussions of sales, acquisitions, or publishing output do not include journals, databases, or other materials.
4. Publishers are adding DRM to their platforms in order to make available more content, especially textbooks and course-adoption titles.
5. What has changed over the past two years is the rate of simultaneous availability. For the top one hundred scholarly publishers, if a title is going to be available in digital format it is likely to be available simultaneous with print.

About the Author

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Notes

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