

Consolidation And Changing Consumer Preferences Impact The Structure And Future Of The Publishing Industry

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ABSTRACT

The publishing industry has experienced several changes that have had a major impact on its business. There has been considerable consolidation of the publishing houses, significant technological changes, and a shift in consumer opinions regarding textbooks. This has put a strain on the publishers' supply chain, as well as their ability to compete in the marketplace. The cannibalization of sales within a publisher's product mix has led to even more strain in extending product life cycles. The combination of students questioning the value of textbooks combined with decreasing profit margins has left many publishers struggling to survive.

Keywords: Publishing industry; e-Books; Textbooks; Digital Content

INDUSTRY BACKGROUND

Twenty five years ago, there were nearly 30 textbook publishing houses; however, the last decade has brought considerable consolidation of the industry. As of July 2008, there were four major players remaining: Prentice-Hall, Cengage, Wiley, and McGraw-Hill. (Bryan, Swanson, & Lhuillier 2010). There have been a couple of dominant forces driving this consolidation—rapidly changing technology, which means more investment for the publishers, and changing consumer demands.

As technology becomes outdated at increasing rates and information must be updated more frequently, publishers must constantly invest to stay current. These demands have attributed to the industry's consolidation necessary to obtain an economy of scale on textbooks and the support materials required for the course by both students and instructors (Bryan, et al., 2010).

Publishers face greater demands from instructors to provide relevant, updated supplemental support materials. However, supplying videos, PowerPoint presentations, test banks, etc., are all very expensive to produce and the adoptions have to be supported for three years in most cases by the publisher (Bryan, et al., 2010). For many instructors, these augmented aspects of the products help them select which text to use. It is critical that publishers do not underestimate or misunderstand the support materials necessary for a course. A situation has been created where the supply must constantly be changed, and the perceived cost/benefit ratio is being scrutinized.

Because of expense issues and information becoming outdated quickly, publishing houses are moving away from hard copy instructor manuals and CD's to online access to an instructor web site (Bryan, et al., 2010). This was met with resistance among some faculty; however, as the trend continues to move to online, it is likely that there will be increasingly less push back from faculty. The investment comes in developing the technology more than in delivering it. Homework management systems, such as those offered through ANGEL and Blackboard, are also part of an ongoing trend—but they necessitate major investments in technology (Bryan, et al., 2010).

Exacerbating the publishing industry's problems has been the students' changing perceptions of textbooks. In the past 20 years, books have lost their perceived value to many students. If textbooks are not required by instructors, many students opt not to buy them. Many more try to share books or find cheaper alternatives via the

Internet. Many students do not keep their textbooks after the course is over. Technology has brought such rapid change to the availability of information, that many students believe the information would be outdated soon, not to mention the burden of moving traditional textbooks. As such, there is little perceived value with retaining a hard copy of a text book. Laws are being considered that will require faculty to provide ISBN and pricing information to students almost four months prior to class (Bryan et al., 2010). This, again, makes the timeliness of the information even more critical.

Students prefer having options regarding types of text formats available, and publishers are constantly updating to meet the consumer demands. Some prefer hard back books, whether new or used. Some students prefer e-books. The industry cannot ignore that increasing numbers of students will prefer digital content. It also cannot ignore the relative advantages e-books provide for the industry.

Rather than the abbreviated three-year pattern of publisher sales, an e-textbook will in effect be continuously sold until publication of the new edition. This represents a staggering 90%-100% increase in sales for the publisher over the same three-year life of an edition. Since the publisher is allowed a full three years of sales to recoup its costs and to realize a profit, the new sales model will deliver a number of benefits: cheaper textbooks, increased royalties for authors, and less money wasted on middlemen. Publishers will no longer be driven by the used-book market to prematurely publish the next edition. New editions will be published only as changes in the discipline warrant. Further cost savings and corresponding price reductions may be available if publishers opt for a continuously updated textbook. Rather than a whole new textbook every three years with content that's dated before it hits the market, a continuously or periodically updated textbook will always be current (Publishers Weekly 2010).

The used book market has presented many challenges for publishers. Publishers do not benefit from the sale of the used books, while bookstores do. The impact of having a less expensive text option for students has disadvantages, even though there is an initial price savings. “The perceived student savings from buying lower-priced used books is deceptive, because the used-book industry essentially forces publishers to prematurely publish expensive ‘revised editions’ for the primary purpose of reducing their losses from used-book sales. Actually, without the 50% loss of market to the used book industry, only a few disciplines would require the expense of a new edition every three years” (Publishers Weekly 2010).

A new threat has been posed in the last 10 years by international editions coming back into the American market. International editions, for the most part, are the same content, but printed in one color and soft back. Most international editions were originally printed as an overrun of the American version; companies made money by selling these extra editions. However, they now must often change content, which makes the books completely different products and, as such, more expensive to produce (Bryan, et al., 2010). This selling abroad narrows publishers’ profit margins, and, once again, impacts their ability to sell the original versions in the United States at the original costs. Students may be left with textbooks that did not meet the needs of the course, but they may believe that the price savings is worth the sacrifice of content (Bryan, et al., 2010).

Publishers struggle with finding new authors in the fields of business, engineering, and computer science (Bryan et al., 2010). Many authors feel as though they do not reap enough return on their investment of time to deem writing a textbook worthwhile. Also, it is necessary that they constantly update their books, which again means more investment of time without significant financial benefits. Because many textbooks are only sold as a new book for one semester on campus, often authors can make a greater return on consulting work in their area of expertise rather than investing the time and energy into a textbook (Bryan, et al., 2010).

The Copyright Act of 1976 includes a provision prohibiting the payment of royalties upon second or subsequent sales of a book including a textbook. Because of this provision, a used-book industry has arisen that captures about 50% of all textbook sales. Looked at another way, 50% of what could otherwise be author royalties and publisher revenues instead becomes a windfall to a corporation that neither created content nor manufactured the product. The creator of content (the author) and the manufacturer of the product (the publisher) must recoup all their costs and earn any profit within the first or the first two semesters following publication (Publishers Weekly 2010).

Laws abroad are also impacting the American publishing industry. Intellectual property laws can vary among countries. Problems arise when books are printed in countries with more lenient laws than where they are sold. “As India emerges as one of the biggest world publishing markets, intellectual property rights become a more contentious issue with authors, artists and other creative persons asserting their rights and the government attempting to bring the industry practices in tune with the international treaties in a more globalized environment” (Prakash 2011).

Other countries, such as China, scan popular textbooks and sell cheap PDF versions over the Internet (Wall 2010). Publishers recognize this theft in the industry, though the only retribution they often have is to adjust price. Brad Wheeler, the chief information officer at Indiana University, sponsors pilot projects for integrating digital content into courses. He recognizes that the advantages of digital content are ever increasing, though they still face issues with shrinkage very similar to traditional textbook pirating. “They price with inventory shrinkage built in. It’s just like when we go to Macy’s; we’re paying for shoplifting” (Wall 2010).

PUSHING THE PRODUCT

Traditionally, publishers have used sales representatives to push their products down the channels of distribution. These reps primarily call on the professors who would be using their products in the classroom. They are responsible for educating the professors about the new products offered. Because the technology is changing so rapidly, keeping abreast of the products available and potentially available is difficult for the reps. And, many reps are expected to cover greater geographic and product areas as the potential return on investment is continually decreasing.

Many publishers offer instructors access to websites to review course materials. Consequently, as the means of pushing the product is evolving, so has the perceived necessity of sales people. Because of the decline of the industry, there is simply less money to pay sales representatives. Many professors feel as though they are not pursued by publishers since many only call on large accounts. Publishers often rate the potential of the account before they decide on coverage—whether or not a rep should personally visit the campus or whether telemarketing would be sufficient. “Some publishers have established thresholds for outside and inside accounts. At McGraw-Hill/Irwin, a school must have the potential to generate a minimum of \$100,000 in sales or the school will be moved to an inside sales account and be tele-marketed by employees in Dubuque, Iowa” (Bryan et al., 2010). The necessity of sales representatives will continue to be an issue, as expenses are increasingly scrutinized.

Another means of pushing the product has been providing hard back samples of textbooks to professors for review. This practice, however, has led to many books being put back into the marketplace without the publishers gaining any financial benefit. “...as a primary means of marketing their product, textbook publishers give away thousands of new textbooks—‘sample copies’ or ‘examination copies’—to professors to induce purchase for the classroom. The used-book industry rubs a little salt in the wound by regularly going around at the end of the semester to collect sample copies from professors. Paying the professor a small sum, they then resell the book” (Publishers Weekly 2010). Consequently, the samples that were meant to entice the professors to select a book, also becomes the publishers’ competition in the marketplace.

ALTERNATIVES TO TRADITIONAL TEXTBOOKS

As with most industries, the consumers of textbooks are driving the product offerings in the marketplace. Traditionally, students purchased hard copies of textbooks from bookstores. Many students now have product choices such as loose leaf notebooks and book rental; both usually provide cost benefits to students. However, the biggest impact on the industry is the Internet. The potential for digital format is undeniable and something publishers cannot ignore.

Loose leaf versions of textbooks contain the same material, but are not bound in the same manner as traditional textbooks, and as such, are cheaper to produce. These notebooks often sell for 70% of the list price. Students can add a product, such as the homework system Connect, for an additional \$10 in a bundled price (Bryan, et al., 2010). Though this is a good price break for the student, the re-sale value of the notebook is questionable.

Bookstores like the used book market, and this alternative does not provide them the product turns that they often seek.

Textbook rental is another option. Many schools are structuring their textbook access as part of student fees, whether with traditional hard back books, e-books, or even a combination. The students pay less for renting the material, but all students must pay the fees. As such, even though the price is not as high, the publishers are somewhat guaranteed to generate revenue, so it can be advantageous for them as well. It takes the guessing out of who will actually purchase the book and who will try to get by without it. This provides publishers with an opportunity to generate more sales because students do not have a used book market to turn to, they can't borrow a textbook from a friend who used it last semester, and they can't check out a copy from the library.

Above all else, e-books are becoming an option in many areas and at many educational levels. "There is a sense of inevitability on college campuses that this is going to happen" (Wall 2010). The information provided via the Internet can be either rented or purchased by the student (Bryan et al., 2010). How this content is delivered electronically is also changing the marketplace. Digital content can be used on computers, tablets, Kindles, and other types of electronic readers.

The transformation from traditional textbooks to e-books is having major impacts on the industry and is expected to increase in popularity. "In 2012, e-textbooks sales are expected to more than double to \$308 million from about \$138 million this year, according to MBS Service Co.'s Xplana a social-learning company. Many of the e-textbooks are projected to be accessed through tablets—especially the iPad—as well as digital book devices like Amazon.com Inc.'s Kindle" (Kane 2011). Some predict that digital reading devices could push textbook sales in the United States to more than \$1 billion by 2014 (Wall 2010).

E-books offer new opportunities for publishers, faculty, and students. Most importantly, the content in this format can be updated on an on-going basis relatively easily. This also facilitates offering the product at a lower price point, which can encourage purchase by consumers who may not have considered buying traditional textbooks at higher prices. There is potential for higher profit margins since the investment in traditional printing methods is by-passed; this could have a major impact on this industry.

Pricing for e-books is still experimental. Publishers do not have a standard mark-up for e-books, so the profit margins vary (Christman 2010). Students also view the investment in e-books differently. "Even if there were sufficient content available, there is the issue of e-textbook prices. Students expect to pay significantly less for digital content, but publishers, who are often making extra investments in interactive features, want to charge the same or more. McGraw-Hill, for example, said its Inkling editions are priced at about 80% of the print cost, while the Course Smart editions are about half the price" (Kane 2011).

According to Rob Reynolds director of research and product design at Xplana, who wrote a 2010 research report on the market, "Overall, we expect prices for digital textbooks to remain significantly lower than their print counterparts, which will continue to stimulate the sales of digital textbooks" (Wall 2010).

Price might not be the only product feature that drives students to select e-books. E-books can offer advantages regarding content, flexibility and availability. "...students are becoming more aware of the special features a digital book can offer them such as interactivity, streaming audio and video, and search capability...The digital copies of textbooks are growing in popularity each semester, she said, but by no means have they replaced print copies" (Christman 2010).

Some believe that publishers could sell three times as many copies of digital textbooks than traditional printed textbooks with a three-year life cycle (Wall 2010). However, even though e-books are gaining favor, they still have an uphill climb. "A survey released in October by the National Association of College Stores found that 76 percent of students would prefer a print textbook over a digital one...78 percent said printed texts are easier to read. But the special tools that go with digital textbooks---like the ability of professors and students to make notes and highlights in key passages and share them with the rest of the class-get high marks...But above all other factors, it's the price advantage of digital books that will drive explosive growth" (Wall 2010).

As notebook computers become more popular, it is likely that many publishers will develop products for these users. Many tablet proponents believe it is simply a matter of time before they are seen in widespread use (Kane 2011). “Students can use them immediately in a way that’s coherent with the course of instruction as opposed to leaving the classroom and going to a computer lab,” said Matt Federoff, chief information officer for the Vail School District in Arizona. Since last year, the Vail district, with 10,500 students and 16 schools, has tested iPads in special-education classes, high schools and elementary schools” (Kane 2011). The iPads offer a flexibility not provided by traditional textbooks; their advantages will continue to increase as students and instructors become more accustomed with their use.

Instructors can customize e-books in a way not previously possible. “Finally, some of these new electronic platforms permit individual instructors to modify the text for their own classes’ use, eliminating material that isn’t required and adding the instructor’s own material, such as video clips, study aids, or self-test material. In addition, with the use of electronic textbooks, the net cost of instructional materials will be substantially reduced due to the elimination of printing, binding, warehousing, returns, distribution, and other publisher costs. Students, professors, and educational institutions as well as authors and publishers all stand to gain through use of the digital format” (Publishers Weekly 2010).

This is a critical time for the publishing industry. The struggle between technology driving the use of one company’s products over another versus intellectual property is on-going (Bryan et al., 2010). The decision process for faculty has become more complicated, and yet offers many potential educational opportunities.

Table 1: Traditional Textbooks Versus Digital Content

Format	Advantages	Disadvantages
Traditional textbook	No technology needed by students Students, bookstores, and publishers are familiar with the product Bookstores can profit through new and used sales	For students, no perceived future value and expensive Information cannot be easily updated Publishers get 1.5 turns of product, making it difficult to profit
Digital content	Lower price points available to students Students are comfortable with technology Publishers can control content Easy to update	Bookstore cannot profit as much, therefore may lose their support Copyright infringement a concern—students can share content

TEACHING THE CASE

This case is designed to look at the current struggles of the publishing industry as well as changing consumer preferences. All students are potential textbook consumers, so they are familiar with the topic. However, they are probably not aware of the different issues that the industry, faculty, and even the college book stores face.

It would be interesting to lead classroom discussions regarding:

1. What are the issues in the industry?
2. What are issues as a consumer? What are priorities/preferences?
3. What direction do the students see the industry going? Do they have any suggestions?
4. Do students value textbooks? Why or why not? What are their expectations as consumers of the product?

The following questions could be answered individually or by groups of students:

Question #1

Publishers usually get one full semester of sales from a new book or revised book, while the bookstore may get as many as six semester sales, plus a couple of summer sales in some course areas. The markup on a new book to the student is roughly 30%, while the markup on a used book can be anywhere from 50% to 100%+ for some

courses (Bryan et al., 2010). However, bookstores now are being faced with outside competition—mainly e-books and used books purchased via the Internet. What could be done to prevent increasing conflict among these channels?

Answer #1

Answers will vary. Students should have ideas about how to make the relationships mutually beneficial for all involved; every channel member must have the ability to make money. As bookstores are seeing themselves as potentially by-passed in the supply chain, they may be more willing to work with publishers regarding old textbooks as well as e-books.

Question #2

What courses lend themselves to traditional textbooks? Why? What courses would be better taught by digital format? Why? What courses would price be the biggest concern for students?

Answer #2

Answers should vary. It is important that students explain why the formats work or do not work for each course. Courses such as history and literature would lend themselves to traditional formats since the content does not necessitate change frequently. However, textbooks in fields such as business and biology must constantly be updated. Students often feel as though books in their main field of study are a better investment than courses that are not.

Question #3

Which is more important to students—cost, convenience, relevance to course? What is the role of each in product selection?

Answer #3

Most students will focus on price being most important. However, they should be able to discuss the convenience and relevance factors. For most students, e-books should be cheaper, convenient, and often more relevant because of flexibility and adaptability compared to traditional methods. Some will believe traditional textbooks to be more convenient. It is important that the students justify their answers.

Question #4

Can a product meet all of the consumers' needs, or just target the most important needs? How do you see students valuing information in the future, and what does this mean for the publishers?

Answer #4

Students should recognize the benefit of one format over another and how this should be critical in the decision making process. If a product exceeds expectations of other products, it has a greater chance of success than if it only exceeds on one product dimension--unless, of course, it is the only product that offers the benefit. It is likely that students will value the availability of information differently—they will have different expectations as their experiences with digital formats increase.

Question #5

Can a product meet all of the consumers' needs, or just target the most important? How do you see students valuing information in the future, and what does this mean for the publishers?

Answer #5

Students will probably focus on meeting the most important needs. It is important that they justify their answers. Students will value timeliness, convenience, and price in the future. Publishers will have to adjust their product mix to meet whatever the consumers' needs are. It is improbable that traditional textbooks will be on the increase in the near future; the other formats could be explored in greater detail.

Question #6

There are increasing numbers of non-traditional, minority, and working students in most universities. How will this affect the given textbook options?

Answer #6

Convenience and price will continue to increase in importance. It is not incomprehensible that students will select courses depending on the related required materials. As such, options should be given, when possible, regarding what students are likely to need.

Question #7

This case discusses much of the push strategy involved in this industry. On the contrary, a pull strategy is when "the company tries to move its products through the channel by building desire for the products among consumers, thus convincing retailers to respond to this demand by stocking these items" (Solomon, Marshall, Stuart, 2009, p. 388). What could publishers do to create more of a pull strategy? How could books stores create a pull strategy?

Answer #7

Promotional activities can vary from student to student. However, the students should be aware that these activities should facilitate getting more information to consumers. The Internet has tried to reach some of students, but could be used even more extensively. Social media could be explored as well. The bookstores could utilize in-house promotions to generate interest and educate students about the products. Point-of-purchase in the stores can be very effective. However, the students could be reached by the bookstore via the Internet before they ever visit the store on campus.

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