The coming transformation of the textbook

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Three years ago I wrote an article for LOGOS about whether textbook publishers would follow the eLearning industry and go digital. The dot-com crash had just occurred and publishers were tinkering with electronic options as tactical support for book sales and, possibly, to gain incremental sales. Now, three years later, the digital issue is again in the forefront for higher education publishers and, shortly, for primary and secondary publishers. What has changed? Why are the textbook giants looking at digital differently? The answer to these questions appears to be economic. The rising cost of textbooks in the US has hit the proverbial wall. Protests over book prices, in an economically challenged time complicated by rising tuitions, have pushed the publishers into high gear. What is being contemplated is a change across the span of publishing – from product creation to product management to sales and marketing to contact with the end-user. Compared in this article are the variables in a publishing equation that is coming to grips with traditional form and convention as contrasted with the emerging market realities of servicing educational and economic expectations through the Internet. When taken together the price, consumer pushback, and mature technologies add up to an unmistakable trend. Strategic changes in the industry signal an evolution from Gutenberg's press to Berners-Lee's World Wide Web.

As Internet-born business, government and information transactions accelerate globally, the textbook remains anchored in time, unchanged and seemingly unchallenged by the new realities. It survived the dot-com mania and the burst of the Internet bubble. It is surviving the high-pitched criticisms of rising textbook prices, edition inflation, and in the US the importation of lower-priced texts from Canada and the UK. Online

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courses and eLearning have not dislodged the mighty and weighty textbook; in fact, they have stimulated its sales.

Yet there is a clear sense inside the industry and outside of it that change is on the way. Society, commerce, and education are evolving into a variable mix between what is on the Internet and what is physical, between what is local and what is virtual. Every segment of the population and the economy has found, or is finding, a balance between electronic information services, hard goods, actual locales and Web destinations. Consider financial services, travel and, increasingly, medical information. The textbook industry and education in general are the holdouts. They too will eventually succumb – for three reasons:

- *Efficiency*: The information business is quickly becoming business in general. There is no way to escape the broad use of technology integrated into existing businesses, replacing old systems with customer-friendly ones.
- *Market*: Young people in developed nations and in soon-to-emerge economies will begin to demand multiple and variable access points to learning content while educational institutions stumble to achieve higher levels of student success.
- *Policy*: The young people being educated today will operate within, and eventually lead, the corporations, organizations, governments and institutions that already use these knowledge and information technologies; our students, future stewards, should be educated with the same, or better.

Efficiency, market dynamics and policy have thus become important drivers in determining the textbook's future. Textbook publishing and its symbiotic relationship with higher education cannot continue much longer in their current form. Business-as-usual was the time-honored hallmark that went unquestioned for years. It included a quiet accomodation where institutions ceded their publishing to publishers because it seemed the most efficient thing to do. Today the publishers, on their side, are looking for efficiencies internally and for markets that will continue to grow even while demographics dictate the onset of a shrinking college-bound population. The universities, their budget offices, legislatures and government agencies that oversee public funds for education are beginning to examine budgets and, increasingly, look for cost savings and performance gains. How these forces play out in the United States will dictate to a certain extent the future of the textbook everywhere.

The winners on both sides of this divide are going to be those who can reduce costs and produce results. There are five problems facing the traditional textbook as it confronts new forces driving it toward higher producer efficiencies, greater market dynamics, and more intense policy scrutiny.

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Problem number one: The publishers' own worst enemy (sales)

In the last five years the US textbook industry has faced an unlikely and durable adversary: *itself*. The competition for a brand-new textbook is not necessarily the textbook contemporaneously produced by a rival publishing house. It may be the very same book produced by the very same publisher the year before. The used-book market is a Damoclean sword hanging over the industry.

The main point of sale for the textbook in the US is the college bookstore. There are roughly 4,630 bookstores serving the 4,182 US college campuses. Faced with the choice of selling a new book vs a used book, the college bookstore prefers to sell the used book because it generally returns a larger percentage than a new copy. Further, the student's interest is to buy the cheapest. Thus, the main retail outlet for the industry is actually both pitted against and aligned with the publisher's interest. On one hand, the store needs to sell enough new textbooks to create the supply of used books. On the other hand, it wants to sell used books, at a higher margin, and make a profit twice on the same book.

In the automobile industry, where the dealer can also sell the same product twice (once new, once used), the dealerships do not first attempt to sell the used cars to new customers. Even if they did, the manufacturers, analogous to the publishers, would do just fine because financing and replacing parts for used cars are their two most lucrative activities. The textbook industry has no such refuge except where it owns other components in the value chain, such as assessment, training, and related businesses, but these products are rarely tied together with the book in a single sale or single system.

As a result of the publisher's self-competition, a vicious cycle has been established forcing a publisher to compete with its own and other publishers' previously sold textbooks. Ever more frequent updates to editions are made and more and better supplements, physical and electronic, are produced, including websites for nearly every book. For this expensive process to work, the professor or instructor needs to be convinced, often by an eager and well-heeled sales force, of the value of the new book and its flashy ancillaries over those of the old book. Remember, it is the professor who is the recommender of assigned textbooks, not the student. The consequence of the acceleration in new editions and the production of more extensive supplements has been the continual increase in textbook prices, which have risen faster than those of trade books and far more than other goods in the economy. As a result, over the last ten years sales of used books have risen rapidly to between 25 and 30% of total textbook sales.

The justification from the industry for the increase in new book prices is that the updated editions with extensive supplements are what professors and instructors actually want. The freshest and most up-to-date learning materials with the largest price tags generate greater revenues to go into several pockets – the store's, the author's and the manufacturer's. Current research (Association of American Publishers, Zogby Poll) shows that faculty desire the new materials for their students. However, no book can be re-issued as quickly as some fields change and in fields like mathematics that are relatively stable such frequent revisions are not needed. The web in most cases is the logical and expected updating mechanism.

Yet faculties and departments are not sitting down with editors and publishers to determine what is best for their students. It is still the publisher who creates the goods and then asks for approval through the sales, not development process.

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Problem number two: mixing up supply and demand (IP) The goods the publishing industry sells, the organizations of these goods and their intellectual property all come from the same source – their customers. The supply (faculty authoring) and the demand (faculty assigning, students buying) both come from the campus. The publisher is the value-added middleperson.

Authors of textbooks are generally college faculty. Professors and instructors labor over books as authors, generally with their time unofficially subsidized and encouraged by their colleges or universities, and then place the manuscripts with publishers who sell the completed books back to the authors' students and those in other institutions. Indirectly, the publisher receives a subsidy from the State or private institution that employs the author, while a secondary, unexpected subsidy goes to the bookstore that makes money twice from the same book, owing to its durability and the fact that the subjects being taught do not change as often as the textbooks. Ironically, the informal subsidy the publisher receives from faculty writing the books (if they were not faculty, they would not get the assignment) is passed on to the bookstores. They can resell a book as a used copy without paying royalties to the author or buying from the publisher.

That public or private employees produce textbook content that the publisher then sells back to public institutions is an issue that has not been examined in depth. Separate and apart from the intellectual property rights and entitlement of the faculty members is the question of how public instruction dollars are spent.

The large university systems have many unexplored options. They could use their considerable subject matter expertise and become publishers themselves; they could band together at department level and aggregate demand to drive down the cost of books on a market basis by offering a large volume of secure sales; or they could share custom-publishing options with the publishers to buy less publisher content and to contract out for the printing, binding and Internet versions.

It is odd that universities have accepted for so long the status quo from the textbook-publishing industry in relation to the core texts used by their students. When issues do arise over the textbook, they are not about how it is produced, what its content is, or how it is used. Instead, the issues are primarily articulated by public interest groups standing in for the universities and addressed by the textbook industry's trade association standing in for the publishers. These surrogates engage in heated debates about price and marketing practices, which in many ways provide a convenient smokescreen disguising more serious issues. It has never become a common or even rare practice for senior executives of a textbook company to sit down with senior administrators and deans at a university to examine the issues strategically. The primary contact has been between sales people and faculty.

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Problem number three: disaggregating development & production (production)

In a world where specialized production, such as composition or printing, was compartmentalized and specialized, it made historical sense to create the learning materials for the institution outside of the institution. Today, any large Political Science or Engineering department could contract with outside editors, publishing service firms and marketers and do the same – in some form of what could be called, after the beer industry, micro-publishing. The university micro-publisher could even receive some of the critical ingredients or content from the publishers or their custom divisions. While this is unlikely in 2005, mostly because of inertia and lack of interest, it may not be unlikely by 2010 for large university systems in states such as California, Texas, Florida, New York, and Ohio which by then could easily have central learning content services arms or form their own entities as has been done in the past.

Such an initiative would by-pass in large part what the publisher can bring to the table, either directly or in pieces. The only parts of publishers' activity that are completely controlled by them are the acquisition and editing of the content, putting up the large dollars to market and produce books ahead of their sales, and moving the supply to the right place at the right time. In a world driven by the Web, as more and more functions are outsourced and those options become available to those both inside and outside the industry, the publishers' hold on the process, as the core differentiator, is not what it used to be. Developing and producing textbooks for the university is a matter of convenience going forward, not necessity.

However, few public institutions are prepared to seize the opportunity to use this recent disaggregation of production to their advantage. This is perhaps because the social addiction to the physical textbook remains high; the book serves a known purpose and the distribution of books is a complex business. Yet in the information age active markets tend to coalesce around or push closest to where the actual expertise or knowledge resides. In other words, the value of a product is related to how directly that product is connected to the intellectual resources that populate it. Publishers are not experts in the subjects they produce and distribute; the campus-bound faculty members are the experts. The publisher is everything else.

Disintermediation, the removal of the middleman, and disaggregation, the breaking up of singular process, are real phenomena in many other sectors of the economy – in what author and *New York Times* columnist Thomas Friedman calls the "flat world". What isn't real is the likelihood in the world of education that each institution or even each collection of institutions will become textbook publishers. What is likely is that some electronic form of self-creation, self-assembly, and some mixing of publishers' content and tools will occur on the campus, most likely in electronic form. As I will describe, the custom divisions of many publishers are anticipating this occurrence and gearing up for it.

While what might be described as "co-publishing" does not yet have an official name or description, it is some form of partial re-aggregation – where the institution is part supplier, part editor and part assembler of goods from publishers being re-packaged by, or for, that particular campus. This sorting out of roles through a more elaborate "mixing" process could solve problems for both the institution and the publisher.

The "co-publishing" model is not without precedent. The course packs that began coming off the Xerox DocuTech machines a number of years ago made the university the re-publisher of a mix of publisher and professor materials on a larger scale than simply photocopying articles and handing them out. Those materials went to the bookstore with a price tag attached and they were a mix of publisher content, faculty content, and a "publishing" process – with rights-holders being paid.

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Problem number four: the customer is *not* in charge

Tied to the unusual relationship between author and producer and recommender and purchaser is the fact that the end-user (student) does not select what he or she purchases, only the outlet from which it is purchased. In classical terms, the student who pays may or may not be the customer. The university has endorsed the use of texts and has given the responsibility (or agency) for their selection to faculty. Students have been instructed to buy what has been recommended. The producer or publisher treats the faculty member as the customer of record and looks to the student to buy the core texts and possibly additional products or services on top of the recommended book sale.

A student is obliged then either to purchase, borrow, or forego having an assigned textbook. If the purchase options are between buying it at the bookstore or from an online bookseller, or buying it new or used, there is little choice except over price or not buying. This is like a company telling an employee what car to buy and having one of its many managers in charge of producing the designs for the car because it knows what is best for its employees. The employee is free to acquire that car from any of a number of sources but is not free to buy from another manufacturer.

What if the institution, instead of the student, made the purchase, and the books were folded into tuition? This is happening with laptops on many campuses. Students are required to buy them, but the administration shops for the best deal among suppliers and a market price is set.

Students cannot force down the prices of books except in a very indirect way through protest and public opinion. They cannot create a market economy in textbooks because they are not in fact the customer. However, if the institutions banded together they could easily create market forces to drive down prices or set the actual market value of the goods. This approach is not in the minds of universities because the purchase of books has for so long been done by students. Yet the idea is in the minds of legislators and others.

The crux of the problem is not that publishers are overcharging or that bookstores are acting perniciously to gain profits at the expense of students. The friction is due to the artificial nature of the existing market. This is typical of problems that plague traditional institutions or industries and go unexamined as the culture changes around them. Purchasing textbooks is a "given" in culture and practice and is not seen as something that should or could change easily; and what it would change into is not at all clear. While this may not be a pleasing thought to textbook publishers, as if Detroit were compelled to make green cars, they will eventually have to face market forces – and that might not be all bad. The market might provide interesting information that would allow certain publishers to become more competitive and new entrants to come into the business.

The airline industry after forced deregulation is a good analogy. Today we have many choices and many prices. For the textbook industry, the product does not need to persist as a 500-page, 5-pound comprehensive volume. The textbook no longer needs to begin and end with what is between its covers, nor do those covers have to be hard and glossy in four colors only: nor in a digital world do covers need to exist at all.

There is already a well-established pioneer in this space. The University of Phoenix, a very modern, "flat", for-profit education organization, unconstrained by tradition and non-business-like activity, formally adopts materials that its instructors are obliged to use. In other words, the institution or corporation in this case is the customer, not the student. The price of learning materials is part of the tuition.

Because of the wholesale adoption of a set number of books, Phoenix can seek bids for its standardized texts. This is a reverse auction where the buyers know what they want and solicit bids. It also implies that textbooks are essentially quite similar from publisher to publisher.

This is not a position the publisher likes. Phoenix narrows down the bidders and seeks bids only on the electronic text, the bare-bones intellectual property, or the "digital default." All of the major and many of the minor publishers participate only grudgingly in Phoenix's content strategy. This is standard practice at Phoenix where most students use digital materials, not physical textbooks. If students want a physical textbook, they purchase it themselves.

The University of Phoenix is clearly setting a trend that will make sense to other institutions as practice-as-usual gives way to economies of scale, to customizing content for particular settings and students, and as the Web becomes more completely interwoven into the world once occupied by the textbook alone.

Phoenix has learned that markets are possible in the world of textbooks. Markets matter. Publishers, who can't reach the student and are not able to combat the bookstore or sell study aides to the student on the eve of an important exam, aren't likely to build an enduring market. The lines will eventually blur between what is a "book" and what is a service to students. With the ascendancy of the Web, it is not clear how long students have to be chained to "the book".

Problem number five: there's life on the web

Students, faculty and administrators live on the Web. Internet usage and higher education are nearly synonymous. While the Internet did not put as big a dent into textbook sales as was imagined, its use and the growing, leaping sophistication of students will have a lasting effect on the textbook industry. For an age group that does not appreciate dictates, the Web is a wide-open world. As resources multiply on the Web students are increasingly searching and finding enough to get by on since the central concepts contained in standard textbooks are very common. The publishers have countered this trend by having web resources of their own and by having electronic supplements inside the course management systems such as Blackboard, WebCT and eCollege that are present on nearly every campus.

Not only are students turning to the Web with more open source content such as MIT's Open Courseware Project, there are high-quality resources available for the resourceful faculty to assign. College and university syllabi are increasingly annotated with URLs to various Websites or works by other faculty members. This practice in the world of scholarly journals is well controlled. In academic teaching and learning settings it is not. What is unmistakable about the Web is that the student is the customer and it is basically free, particularly with respect to resources devoted to college subjects and fields of knowledge.

The course management system (CMS) business, which includes the early and current market leaders (Blackboard, eCollege, WebCT), has made campuses virtual and created a whole online or eLearning industry. The "class" has migrated to the Web. The CMS systems are installed on virtually every college campus. They work with publishers only through proprietary electronic supplements that faculty can use and students in most cases have to purchase. Here again the student is online and part of the information generation.

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Looking at the vitriolic exchanges between the California Public Interest Research Group (CALPIRG) and the Association of American Publishers (AAP) one soon begins to wonder if what they are arguing about really matters in the long run. Is all that is at stake the cost of textbooks, or is it the quality of education and its effectiveness that should matter? The energetic exchanges and tightly drawn lines can be interpreted as evidence that the traditional textbook model is simply old and it's not the price alone that matters, but core value provided by the publisher to the learner.

Ironically, former twelve-term Congresswoman Patricia Schroder, who was a progressive force in the US House of Representatives for years, now heads the AAP. Schroder, in addition to championing First Amendment rights and protecting intellectual property, is forced to defend the industry against current and former college students operating CALPIRG and similar organizations. AAP, meanwhile, has conducted numerous surveys tending to support the value of the traditional textbook to learning and to defend the prices of books.

On the other side of the fence, CALPIRG argues in its mission statement, “When consumers are cheated, or the voices of ordinary citizens are drowned out by special interest lobbyists, CALPIRG speaks up and takes action”. CALPIRG's report on the subject of college textbooks, entitled “Rip-Off 101: How the Publishing Industry's Practices Needlessly Drive Up Textbook Costs”, ignited a debate on textbook prices that was heard on Capitol Hill and in many legislatures around the country and will result in investigations and some regulatory actions.

Prior to deregulation, the major domestic air carriers in the US had identical fares – one of the great mysteries of the time. This was long before the Internet. How could it be that it cost the same very high price to fly from San Francisco to New York City on American, United, or Pam Am? Deregulation ended high-end price setting by allowing competition in the air routes controlled by the majors. Today, transcontinental air fares vary like the stock market. Every day, if not many times a day, fares can change, except in the case of a set-price airline like Jet-Blue.

In the textbook industry, prices are uniformly high. There are no low-cost, mass-market players, providing Chemistry 101 in a one-color, soft-cover textbook or exclusively over the Web. The fear in the industry, given the fact that education is basically a public good, is that regulation or break-ups could come as they did in aviation and telephone service. There is nothing written or legislated that suggests the textbook in its current form and practice is a gold standard or a matter of unchanging reality. Like any technology, it is relative to the times. What comes next also begs a few other questions. How do we conduct education in the information age? Will the textbook industry be a follower or a leader in that evolution? □

(*To be concluded in our next issue*.)