

Fixing the High Price of Textbooks

By Brad Wheeler

The economics of college textbooks are structurally flawed and are failing students, authors, professors, and publishers. While it seems counterintuitive, the path to digital learning materials such as e-textbooks will likely increase rather than reduce students' costs because current models for selling printed textbooks are being applied to their evolving digital counterparts.

No single economic culprit caused this situation, and I believe that efforts to demonize publishers are largely misplaced. The solution lies in understanding three structural economic flaws in the industry.

First, the structure of the industry is similar to an oligopoly with a few large publishers and a long tail of small ones that sell to millions of students. As individual consumers, students are almost powerless to influence prices and terms.

Second, the inherent efficiencies of a free market with many buyers and sellers are further reduced when buyers cannot choose among products. Professors exert what economists call agency to select a textbook from a particular publisher. Students are not really free to choose a rival product if they want the book that follows the course and may provide required homework.

Finally, students' rational efforts to find cheaper substitutes in used books, older editions, or not buying the book at all actually exacerbate the higher textbook prices. Why? Authors and publishers are paid for their considerable work only when new textbooks are sold. Thus, new textbooks are priced artificially high for the first buyer, who essentially compensates the author and publisher for the next six people who buy and resell it in the used-book market over a 2-3 year publishing cycle. As students more rigorously pursue substitutes—sometimes including illegal pirated digital copies—publishers see less revenue and price even higher or create modest changes for “new editions” to recover their costs which further encourages students to seek substitutes.

The Path to Digital

The path to digital presents opportunities and challenges for publishers as it includes a range of offerings, such as e-textbooks, Web tutorials, learning games, videos, and tools to analyze how students use the books (so-called “learning analytics”). In the shift to digital, publishers can finally kill their old nemesis, the used-book market, through restrictive Digital Rights Management schemes and perishable access codes. They can bypass bookstores, which have long controlled major distribution, and they can largely retain that profit margin for themselves. However, while printing, warehousing, and shipping costs are gone, they are somewhat offset by the very significant costs of digital distribution, rights management, and piracy.

For many students, the shift to digital appears to be costing them more. Why? For the majority of e-textbooks, the price of a highly restricted digital version is about 50 to 70 percent of the price of a new book, but that is almost twice the price of buying a used paper book and reselling it (when that is

possible). Publishers are pricing e-textbooks on a probabilistic consumer sales model just as they did with paper books. They assume some students will continue to forgo the e-textbooks and are concerned that digital piracy could further erode sales. Other digital learning experiences may hold promise for learning, but these show even greater signs of pricing trouble for students. For example, if a professor requires a publisher's Web site for class and it is the only means to complete homework for grades, that publisher could set artificially high retail prices for students since there is truly no alternative.

In 2012, students will also face a dizzying array of limitations on printing, on the number of devices they can use to read the e-textbooks, loss of access after 120 to 180 days, and other restrictions. Different publishers and bookstores are pushing their own software and hardware platforms such that a freshman with five courses may soon need four different pieces of software to simply read five digital textbooks. This propagates the flaws of the print industry onto digital and creates high support costs for institutions and publishers.

Moving the Toll Booth

Fortunately, colleges and universities have a rare, but perishable, opportunity to constructively break this dysfunctional economic structure. After two years of pilot trials with students and faculty, Indiana University is negotiating better deals for students with natural incentives for publishers to drop prices for e-textbooks.

Indiana University has long had deals with Microsoft and Adobe in which all students at the university pay a small fee for access to thousands of dollars' worth of the latest software. It is a win-win deal that provides all students with software tools they need, pays companies fairly for every use, and eliminates any incentive for software piracy.

If that model works for digital software, then why not use it for required digital content and online experiences? Institutions have long billed each student enrolled in, say, Chemistry 101, a required lab fee for consumable lab materials, and can require a similar fee for e-textbooks. This "required fee model" moves textbooks away from the current probabilistic retail sales model for some students to a sharply discounted deterministic sales model for every student in a course. Such a model "moves the tollbooth," allowing students to purchase their digital materials for far less than retail textbook prices and less than the net cost of buying and reselling a used book. Because every student pays to use the content, publishers can substantially drop prices and still make more money. Financial models demonstrate an increase in revenue to creators and lower costs to students. The models have been shared with publishers, and they have not refuted these conclusions.

Institutions can negotiate for a single e-textbook-reader software platform that supports publisher content along with freely available open educational resources. This avoids juggling varied software systems that provide similar functions and simply create needless complexity for students. A common software platform can also integrate into an institution's learning management system or other course support software and use existing logins and passwords—no need for lots of perishable access codes that create support headaches.

Implementing a new model for institutional buying of e-textbooks presents the usual challenges of change, but it can be done. During pilot trials at Indiana University, we resolved multiple logistical, financial, and policy issues and established checks and balances where needed. We had the strong support from our student governments, faculty councils, and many others who all saw the need to help shape the path to

digital. In our first semester of fully implementing the new model, in Spring 2012, the university had 130 class sections participate and saved students almost \$100,000 relative to the best Internet pricing for retail e-textbooks. Students have access to the content for as long as they are at the university, and they can make personal printouts or get a print-on-demand full paper copy of the book for a small fee. Additional publishers have realized the financial advantages of this model and joined Indiana's initiative, and Internet2, a national networking group, launched a broader pilot of the model in 2012.

The rapid evolution of consumer devices for reading and annotating text suggests we may see an equally rapid shift to digital educational resources. But students look to be the economic losers if e-textbook content models replicate the economic flaws of the past decades. Many believe that the textbook industry is ripe for disruption, and "moving the tollbooth" represents one immediate and proven win-win path to reducing the cost of higher education.

Industries rarely stay in transition long before new models take hold and become less malleable, thus the window for institutional action is limited. Universities must act now.