Rethink the Economics of Textbook Market

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Abstract

Textbook markets in the United States are not regulated by any governmental agency. Their prices are determined by the free interaction of demand and supply influences. Textbook prices have drastically increased primarily because of increasing concentration of textbook publishing industry through hundreds of acquisitions, resulting in the elimination of price competition. There is an unfair monopoly on how textbooks get distributed. Textbooks should be affordable and accessible to all and should not be a burden on students and their families. College students are already struggling with high cost of tuition and fees which is now more than $1 trillion. An additional high cost of textbooks further increases debt liability on them and their families forcing students to work more hours/jobs or make poor choices that undercut their academic progress. To ensure students use the desired textbooks for their courses, this paper suggests alternative long-term model under which university libraries should increase their role in solving access to textbook problem.

Keywords: Affordable Textbooks, Textbook Market, Textbook Prices, Textbook Publishers, Textbook Industry

1. Introduction

College textbooks prices have risen steeply in recent years. College students are already struggling with high cost of tuition and fees which is now more than $1 trillion. An additional high cost of textbooks further increases debt liability on them and their families forcing students to work more hours/jobs or make poor choices that undercut their academic progress. According to the College Board, on average, a student spends $1,200 per year on textbooks and supplies (Baum, 2013). Additionally, textbook prices have escalated by 82% during 2002 – 2012 which constitutes approximately three times the rate of inflation (GAO, 2013).

The textbooks market at colleges/universities is a well-known fragmented and complicated market that is rapidly undergoing essential changes. Customarily, textbooks have been sold through on-campus bookstores which, in the past, were owned and operated by the school. Suddenly private off-campus bookstores emerged selling textbooks to students. They introduced a new dynamic of challenge and ingenious into the picture by offering both new and used college textbooks. At the same time, national bookseller corporations that sold both wide-ranging universal books along with textbooks, started emerging and swiftly grew in size. Faced with intense competition in running an efficient and cost-effective college bookstore, many colleges/universities began outsourcing their bookstores to these private corporations in an attempt to better serve their students while still maximizing bookstores' effectual prosperity. Though it improved service efficiency, it also raised the prices of the textbooks.

A college level textbook market carries the virtues of competition. But the market for textbooks is anything but competitive. The private campus bookstores for a long time enjoyed a monopoly on college textbooks market. They provided broad selections of new and used textbooks to generations of college students within a campus with appropriate textbook information provided by the faculty. With no other option in where to purchase the textbooks, students were forced to pay monopoly price for their textbooks. As any college student can tell, textbooks are often hidden costs and can present significant sticker shock to them. The only alternative was to go without the textbooks and a large number of students declined to buy textbooks due to its high cost.

Additionally, at the end of the semester, students sold their textbooks to the bookstore for a negligible price only to see them resold by the bookstore in the next semester at a huge markup price.

With the internet revolution in the 1990s, the textbook industry began to transform. Students for the first time began to notice that they had numerous options in where to purchase textbooks if they go online. Furthermore, they could also sell used books online to the best bidder. Yet it was not that simple and straightforward. A professor typically requires students to buy a specific textbook. Even if that text is available from sellers such as amazon.com, students were not able to discover which books were required until the first day of classes, by which time it was too late to get the best on-line deals. If immediate shipment was added to the price of text, the difference between buying at the campus bookstore and from online source was not that huge anymore.

2. Flawed Practices Drive Prices Upward

Textbook markets in the United States are not regulated by any governmental agency. Thus, textbooks prices are determined by the free interaction of demand and supply influences. J. Koch (2006) laid out a number of distinctive characteristics of the textbook market in the United States and pointed out a number of the problems associated with textbook market due to insufficient information provided to the students:

a. <u>Inelastic demand</u>: Faculty makes decision which textbook to use for the class. Students pay for them because they do not have another choice. Therefore, the demand for textbook is very inelastic (Chevalier and Goolsbee, 2003). Even if the price of textbook increases, demand pretty much remains the same.
b. <u>Inelastic Supply</u>: Instinctively, textbook publishing falls under Oligopolistic market structure where only three to five firms dominate the college textbook publishing and control about 80 percent of the textbook publishing business. Furthermore, market for textbook distribution is also oligopolistic.
c. <u>Costly packages</u>: Increasingly publishers have adopted several practices that also increased the price of textbooks, namely; bundling of textbook packages and frequent releases of new editions.
d. <u>Colleges own book stores</u>: Many colleges/universities own their own bookstore. Profits from the sale of textbooks to their students accrue to them. A large percent of institutions have contract with outside vendors like Barnes & Noble or Follet to operate their bookstores and receive a commission stream from the contract.
e. <u>New tactics</u>: Publishers use various tactics to sabotage the resale of textbooks and drive textbook prices skyward by constraining choices for students:

   New editions: They release new editions every 3-4 years with an average of 12% increase in prices. These new editions do not include vast changes in the subject matter. Students are forced to buy new editions and are unable to sell back old editions to the book store.

   Costly bundles: Publishers also package textbooks with online pin/codes for interactive quizzes and web support which further increases prices by 10-50 % (Student PIRGs, 2005). These pin codes expire at the end of the semester eradicating the prospect to sell back the bundled textbook.

   Custom edition / loose leaf: Publishers print loose leaf or custom editions at the request of the faculty. They are more affordable than standard textbooks but they have no resale value. Besides, the higher price of new edition also increases the price of custom / loose leaf editions.

3. <u>Some Interesting Facts and Arguments on Publishers' Practice that Drive Prices Skyward</u>

In June 2013, the U.S. Government Accountability Office (GAO) completed a report on college textbooks on behalf of Higher Education Opportunity Act of 2008. The report also found that new textbooks prices rose 82 percent during 2002-2012, at approximately three times the rate of inflation (GAO, 2013).

The US Higher Education Opportunity Act (HEOA) is trying to address some of the issues. The act places new requirements on colleges/universities, as well as, textbook publishers.

a. Colleges' and universities' are required to post online course schedule or listing of the courses offered along with required and recommended textbooks, as well as, the International Standard Book Number (ISBN).

This simple adaptation introduced much-needed competition into the retail market. University bookstores now have less capability to manipulate their market power and impose fat mark-ups, since students can order books for less from on-line distributors before semester begin. The major shortcoming for students is that it would be more costly for them to return textbooks if they decide to drop or withdraw from a course.

Critics argue increased competition may render university bookstores to insolvency. Advocates contend if university bookstores have such high costs that they cannot manage selling textbooks at a competitive price, then perhaps its best that they get out of textbook retailing business.

Critics claim, without a guaranteed definite market, bookstore will only be able to supply limited quantities of textbooks and sell them on first come first serve basis. Late comers will find that they are simply unable to attain the required text from the bookstore. The proponents of the act claim university bookstores do not have guaranteed markets at present. In a given class, some students might not buy a textbook at all, some might buy a used text from another student, and still others might be sensible enough to download the course syllabus ahead and buy the book from online sources, and so on. It is a debatable question whether letting students know which textbooks are required ahead of time will increase or decrease that ambiguity.

Universities usually have revenue-sharing provisions with their bookstores. If students buy textbooks from online sources, universities will face a shortfall of revenue. Even though it is true, it is not comprehensible that textbooks sales are an effective and helpful way of charging students for education.

b. The HEOA also requires universities to include textbook prices on their class listings, in particular the retail price in the campus bookstores.

Critics point out that even though this requirement promotes competition in the retail market, some students might select their classes based on the price of the textbook. Some might not select a class because of the price of the text. Some argue the price of a textbook in the university bookstore is not a good representation of the actual price a student will in fact pay for the book. A textbook that is used more than once will normally have a successful second-hand market. Thus the actual cost of a text to a student is the price paid minus any money received from selling the text at the end of the semester. Therefore, the real cost may be a fraction of the retail price - but if a new edition is about to be introduced, it may be substantial. Unfortunately, the cost of used books and rentals continue to rise as the publishers continue to bring out new edition every 3-4 years and price of used/rentals are pegged to the price of new editions (PIRGs, 2004).

c. Publishers are required to let professors know, in writing

- the wholesale and retail price (or list price) of the textbook and any other materials that are bundled with the textbook
- if the textbook is available in other formats at a different price, for example, in paperback, e-book, or digital format

Critics reason the usefulness of this requirement. A professor chooses a book based on its effectiveness, not because of its price. An inexpensive text may not be as effective as an expensive text. They argue should a doctor prescribe a less effective medicine because it is cheap?

Several professors use the same textbook for a number of years. Some suggest students to pay tuition and fees with all textbook materials inclusive. Universities can buy textbooks in large bulk at reduced whole-sale price and use them for a number of years. Students could use for a semester at no cost provided the textbook was returned in fair condition. If not, student should be charged for the text. The textbooks would be replaced when they wore out or when they became outdated which could be easily more than three years, far better than the publishers' new edition on every three years cycle.

d. The last stipulation of the HEOA relates to publishers' practice of eliminating the second-hand textbook market by frequently introducing new editions. Publishers are now required to provide information, in writing:

- Dates of the last three editions of the textbook published
- An explanation of major differences or revisions between the present and previous editions of the textbook

Supporters like this idea, but argue that the HEOA should go further and require this list of major revisions be accessible to students, such as on the publishers' website. While the HEOA stipulations are helpful to students, the price transparency alone is not resolving the high price problem of the textbooks which is monopolized by the publishers. The report did not provide any solution to the problem that actually drives prices down in the market. It is important to note that just five textbook companies control more than 80% of the $8.8 billion publishing market giving them near monopoly market power and protection from serious competition (Allen, N. 2013).

4. Publishers' Products and Obstructive Schemes – Both Are Evolving

In today's age higher education is a necessity not a fashion. Cost of higher education is anything but competitive. While MOOCs (Massive Online Open Courses) may be trying to change how students attend college classes, textbook prices remain a painful thorn for students. There is an unfair monopoly on how textbooks get distributed. Many publishers plan to replace print textbooks with e-books claiming they are cheaper to produce and easier to carry. They generate steady flow of revenue for them. They consider it as an improved model for their business, for the environment, and for the students. Proponents of the model believe once students switch to e-books, they will be hooked. But the transition to e-books is much slower primarily because they are not dramatically cheaper than the print textbooks. However, despite the various alternatives, such as e-textbooks which are simply digitized texts that are available to students on laptops or tablets, they are available for limited time – 180 days. Further, printing pages are limited on e-textbooks. Such tactics restrict use and increases cost. Students cannot sell back e-textbooks. Besides, still several faculty and students prefer print copy so they can write notes quickly on the page which helps them to remember and focus on studies later. To some, print versions are easier to use and sell. Electronic versions are non-transferable and expire after a semester. Also, there is no used market for them.

More recently, some publishers are offering customized packages of digital content that include not only the textbook materials but also learning-assessment aids and other features. Print textbooks have increasingly given way to core solution products. Publishers like Cengage Learning, Pearson and McGraw-Hill Education have introduced a new model: customized packages of digital content that also include learning assessment aids, online versions of the texts combined with interactive features including embedded quizzes and electronic flash cards. They are sold to students' via access codes that expire at semester's end. These products are very competitive. Additionally, publishers save on printing, shipping, and processing on returns. Critics are not convinced. They claim publishers have not been able to sell this argument to many professors and students. Not all professors are interested in other materials/features. They do not see much use of them. Students' are skeptical too. Many prefer straight-forward e-book. They are not convinced of the advantages and rewards of the touted special features.

5. New Textbook Models: Options and Recommendations

Textbook prices have drastically increased. The prices of new textbooks rise about 6 percent a year, according to the U.S. Bureau of Labor Statistics. Nonetheless, students are still buying textbooks. They are really not paying full-price as there are more options for buying used books or even renting them – either online or print – from sites like Amazon and Chegg. They are already seeking other alternatives to textbooks by turning to Google and Wikipedia to find information or simply sharing copies of chapters with classmates. Used textbooks constitute more than 35-40 percent of the total textbook market. Additionally, students only purchase 18 percent of textbooks at the college bookstores (National Association of College Stores, 2006).

Short-term Options:

Used and rental markets are economical. Both markets have emerged to be more popular options among students compared to new print editions. They offer significant savings but there is no opportunity to resell e-textbooks. Only if students are able to sell used books to other students on e-bay or some other platform where they could timely communicate to other students, used books can further depress cost of textbooks. Unfortunately, the price of used books, e-books and rental books are dictated by the price of new editions. If the price of new edition is high, the price of used/rental and e-books also tend to increase. These models are only helpful in the short-term (National Association of Campus Stores, 2012; Student PIRGS, 2010; US Department of Education, 2013).

Long-term Alternatives:

One option is the MOOC (Massive Open Online Courses) where lectures are available for free online. Even though many new establishments and colleges have begun to develop MOOC, their quality is contentious. Not all free online lectures are written by well qualified authors.

They are not a good replacement of all the information that is in a good textbook. Nonetheless, MOOCs provide yet another affordable alternative course material to the students.

Another alternative is open-course textbooks which are free online. They are becoming popular as an innovative replacement for print editions. Some colleges are seriously initiating campus-wide pilot programs to encourage the use and development of open textbooks.

The advent of open textbook represents a counterpart to MOOCs. It also challenges the publishers' grip on new editions' prices. Open textbooks are available and circulated under an open source license. It provides free online access, allows printing at low-cost, and can be customized by instructors. There are over 140 titles available under an open license in the University of Minnesota Open Textbook Library and are used by hundreds of students (University of Minnesota). However, the supply of high quality materials under open textbook is limited. Though gradually more are adding to the supply of open textbooks, there still remains a shortage of quality open textbook in all college courses. To introduce competition in this segment of the textbook market and to make it a real alternative to traditional textbooks, there needs to be more investment in encouraging faculty in the creation and development of open textbooks. Colleges / Universities should provide resources and incentivize faculty to invest time in creating open textbooks. Students are more likely to enroll in classes with open textbooks. Colleges will attract more students at their campus. Therefore, faculty should be encouraged and rewarded by the colleges/universities. In the typical case, the faculty author of the textbook who receives royalty from the book's publisher is prohibited from using their own textbook in their class. Or alternatively, are required to remit those royalties to their college/university.

Still another alternative is the college/university purchase used books which they subsequently rent to students. Students must return book in good condition at the end of semester, or pay for it. This rental system will work well when classes are large, run frequently and professors use the same edition of a textbook for at least four years (PIRG, 2005). This system requires major initial investment by the institution to cover maximum courses and expenses on inventory, storage facilities and training of personnel.

To avoid all above complications and to ensure faculty use the desired textbooks for their courses we suggest that the university libraries should increase their role in solving access to textbook problem. University libraries should not purchase textbooks rather they should directly negotiate and sign contracts with the publishing companies for reduced e-textbook prices. Just as group health insurance is cheaper than individual health insurance, a large contract for e-textbooks in different disciplines should reduce the cost of the textbooks. Students should be charged library usage fee each semester which should pay for such contracts. Universities should provide these funds to their respective libraries to invest in e-textbooks by engaging in contracts with the publishing companies on annual or semester basis. Such a strategy would ensure that every student will have textbook in the class. This technique will also reduce textbook prices the same way as if we buy things in bulk on discount. Publishing companies would still make profit based on number of contract bids earned. This is a win-win situation for most – students, universities, and publishing companies. The only loser in this game would be the bookstores.

Conclusion

Textbook prices have drastically increased primarily because of increasing concentration of textbook publishing industry through hundreds of acquisitions, resulting in the elimination of price competition. When textbook price increases are combined with the seven percent average increase in tuition and fees (GAO, 2005), it increases overall price of higher education and significantly presents serious financial problems for the students and their families. These financial burdens are evident in two ways: First, over time, student access to higher education has declined and second, students have taken more time to complete their academic programs of study.

The profound challenges facing the textbook problem will not be solved through publishing companies alone. The solution requires collaboration between the university library and publishing companies. By matching up textbook needs and resources, and by discontinuing conventional roles and arrangements with the university bookstores, we can increase the chances of more students to have the opportunity and resources to learn, provided the universities have the commitment, devotion and power to ease this successfully. By pledging to such an agenda, the universities can improve their role as the driving force to increase and improve textbook access and thereby education for all students. Textbooks should be affordable and accessible to all and should not be a burden on students and their families.

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