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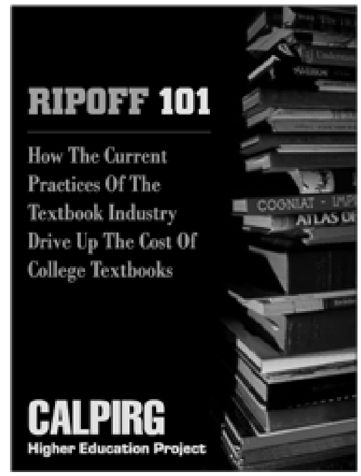
Textbook Decisions

by Peter T. Ittig, Feature Editor

Ripoff 101: How the Current Practices of the Textbook Industry Drive Up the Cost of College Textbooks
by Merriah Fairchild
Publisher: CALPIRG, 2004
http://www.calpirg.org



In recent years there has been a rising chorus of concern about text book prices. Students are beginning to complain now that prices of many textbooks are well above $100. A recent study on this subject was sponsored by the California Student Public Interest Research Group (CALPIRG) and the Oregon Student Public Interest Research Group (OSPIRG). That study resulted in a report by Merriah Fairchild entitled, *Ripoff 101: How the Current Practices of the Textbook Industry Drive Up the Cost of College Textbooks.* The report is being widely discussed and was the subject of a Congressional hearing last summer. You may obtain a free copy of this report online (in pdf format) at http://calpirg.org/reports/textbookripoff.pdf. Merriah Fairchild is the Higher Education Program Director for the California Student Public Interest Research Group (CALPIRG). You may read the Congressional testimony from July 2004 on the subject "Are College Textbooks Priced Fairly?" at:

> http://edworkforce. house.gov/hearings/108th/21st/textbooks072004/wl072004.htm

That site presents the testimony of Merriah Fairchild as well as interesting rebuttal testimony from a spokesman for the major association of college bookstores (Marc L. Fleischaker, National Association of College Stores) and testimony from a representative of the publishers (John Isley, Chairman, Association of American Publishers and also Vice President, Pearson Higher Education), all in html format.

The CALPIRG study examined the most widely assigned textbooks at 10 public colleges in California and Oregon. The study also included interviews with 156 faculty and 521 students about their purchasing practices and about the cost of textbooks. Among the conclusions are the following objections to a number of practices in the publishing industry.

Bundling. Many textbooks now come "bundled," or shrink-wrapped with additional instructional materials. Special additional materials are provided to instructors. The CALPIRG study showed that 65 percent of faculty "rarely" or "never" use the bundled materials in their courses. The report characterizes the bundled materials as "bells and whistles that drive up the price of textbooks; most faculty do not use these materials." Even if only a few faculty members use the "free" workbooks, videos, PowerPoint slides, Web sites and CD's, the publishers tend to put them in.

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Frequent new editions. The report concludes that new textbook editions are often published with little or no new information and found that 76 percent of faculty report that the new editions they use are justified "never" to "half the time." There is a suggestion that the publishers use new editions as a device to eliminate competition from the used book market and boost prices.

Prices. "The study found that textbooks are expensive and getting even more expensive." The average text in the survey cost $102.44. Students surveyed at the University of California in the fall of 2003 reported spending an average of $898 per year on textbooks. The study also suggests that textbook prices have been rising faster than the general inflation rate. The study found instances in which publishers were charging a considerably higher price to American students in comparison with students in Canada and in the UK. The report also suggests that the development of online textbooks may reduce prices in the future.

Issues

There are a number of interesting economic and legal issues associated with textbook prices. One economic issue is that the publishing industry has gone through a substantial consolidation in recent years. A consolidation has occurred in other industries as well, including banking. There has been some concern that industry consolidation may have had the effect of reducing competition and keeping prices higher than they would be otherwise. In place of a large number of firms, there are now a small number of giants in textbook publishing with numerous brands or "imprints." For example, as a result of various mergers, Pearson Education now includes Prentice-Hall, Addison-Wesley, HarperCollins, Longman, Simon & Schuster, Little Brown, Allyn & Bacon, Macmillan, and more! The dominant surviving textbook mega-publishers appear to be Pearson, Thomson, and McGraw-Hill. While the publishers argue about the extent of the price inflation in textbooks, it does appear that the productivity revolution of recent years has not reduced the prices of textbooks. Rather, the prices continue to rise with each new edition.

New Editions

Pearson reports that "In the college market, new editions are usually published, on average, every three years." The CALPIRG report observed that new editions often have very few changes in content. The frequency of new editions causes some additional work for instructors since the page numbers are changed. This results in a need to revise homework assignments and course syllabi. The publishers argue that, "Professors generally want the most up-to-date information and resources available and are unwilling to adopt older textbooks." Apart from this argument, there is also a major economic advantage of a new edition from the perspective of the publisher. Namely, that it wipes out competition from the used book market at periodic intervals and provides an opportunity to raise prices.

Price Discrimination

Marc L. Fleischaker, a spokesman for National Association of College Stores (NACS), reported in his Congressional testimony that "we understand that many textbooks sold for distribution overseas are . . . 20-40 percent of the price for textbooks sold for distribution in North America." This issue appears to have parallels with the drug pricing issue in America where prices are often much higher than those abroad for the same drugs from the same manufacturer. For one comparison of book prices, try the Amazon U.K. site (http://www.amazon.co.uk/), though the prices appear to be even lower in Asia. Currency conversion tables are readily available online, including one from Yahoo (http://finance.yahoo.com/m3?u).

In the field of Decision Sciences today, price discrimination is more commonly known by the euphemistic terms "yield management" or "revenue management." However, economists recognize this behavior by the older name of "price discrimination" whenever the price differential is not caused by cost differences. In economic theory, price discrimination is a symptom of weak competition. If you have a monopoly, you might like to determine the willingness-to-pay for each customer segment separately and set prices accordingly for each of them. If you have purchased an airline ticket recently you may have noticed some of these games (where the discrimination is based upon when and how you purchase your ticket). Publishers argue that, "To ensure worldwide access to quality educational materials, publishers set regional prices in the context of local market conditions and consumers' purchasing power."

The NACS bookstore spokesman suggested in his testimony that "at the very least, publishers take steps to assure that textbooks sold into overseas markets at more favorable prices be prevented from being resold back into the U.S. for use by college students." This also has echoes in the drug markets where drugs are being profitably reimported into the U.S. from Canadian pharmacies. The NACS spokesman reported that the NACS Board of Trustees adopted a resolution in March 2003, "deploring the sale of identical or virtually identical college textbooks to foreign wholesalers and retailers at prices significantly lower than those available to domestic wholesalers and retailers." The phrase "virtually identical" refers to versions from foreign suppliers that sometimes carry a sticker saying "International Edition" or something similar. In effect, American students are subsidizing foreign students. There was a related article in *The New York Times* on October 21, 2003, entitled "Students Find $100 Textbooks Cost $50, Purchased Overseas." That article noted that "textbook publishers have tried to block reimporting of American texts from overseas," but that the "Supreme Court ruled in 1998 that federal copyright law does not protect American manufacturers from having products they arrange to sell overseas at a discount shipped back for sale in the United States." *The Times* reported that "gray market sales are taking off on campuses." Since the 1998 Supreme Court decision, publishers have attempted to limit the reimport of texts by inserting language into their contracts with foreign firms to prohibit this practice. In a related editorial on October 25, 2003, *The New York Times* objected that "there is evidence that publishers drive up costs whenever they can." The Times also suggests that, "Professors should change textbooks only when necessary—not just because a nearly identical new edition comes on the market . . . ." (You may obtain those articles in the LexisNexis database, if your institution subscribes to it.) *The New York Times* article also reported that the bookstores at Purdue University and at the University of Minnesota are now using foreign suppliers for some texts. Further, at Purdue, the India student association has been ordering large numbers of books from India for sale to Purdue students! The manager of the Purdue University bookstore complained that, "I think I'm losing about 10 percent of my sales to overseas books." A person speaking for the University of Minnesota bookstore was quoted as saying that "We buy from the U.K., France, Israel and the Far East… As long as the publishers are offering books at less than half the price that's available here, we'll take advantage of it."

The NACS spokesman complained about the reimport issue in his Congressional testimony: "distributors began selling textbooks purchased overseas back to the U.S. at very low prices that enabled U.S. students to buy at prices well below the prices at which college bookstores themselves were able to purchase directly from the publishers. College stores generally watched this development with great anguish…. We would estimate that textbooks purchased from sources originating overseas account for approximately 5 percent of textbooks which are sold, and that number is likely to grow."

Separation of the Buyer and the Decision Maker

This causes an economic externality problem that will be familiar to those involved with health services. The person who chooses the book (the professor) is not the person who pays for it (the student). Professors often choose books without any awareness of the cost to the students who pay the bill! This has the effect of reducing price sensitivity. Publishers may have noticed that a price increase for a new edition of an established text has little effect on demand. They may be exploring the limits of this inelastic demand curve.

What Can You Do as a Professor?

- At least ask about prices when considering which text to adopt. You are making a choice for your students as well as yourself. Act as a responsible agent.
- Tell your publisher representatives that you will be considering the price as a factor as well as the academic quality of a text.
- Tell your publisher representatives that you will be considering how often a text is reissued in new editions. Encourage a longer cycle than the three-year cycle now used.
- Consider an e-book as an alternative. Some publishers, including Pearson and Thomson, have started to offer e-books. In the case of Pearson, these are offered at a substantial discount. For the Pearson offerings see, http://www.safarix.com. Pearson claims that "SafariX WebBooks are functionally equivalent to print textbooks and include the same page numbers as print editions", but at "half the cost". Thomson has taken a different tack on e-books. In a separate statement they explain why electronic versions (theirs) "do not cost less than printed versions.… The cost of producing a typical e-book is incremental and adds to the base cost of publishing the printed book rather than decreasing that cost."
- Post your textbook selection before classes begin. Those instructors with some foreign students may have already been asked to do this, as I have. Early posting allows foreign students to order the text at lower prices through foreign sources during semester breaks. In some cases, it may be possible for your students to arbitrage the price differences by purchasing books abroad and re-selling them to fellow students for mutual benefit. A firm that specializes in this kind of arbitrage of foreign price differences is BookCentral.com, started by students from Williams College (http://www.bookcentral.com/).
- Suggest that students check several Web sites, including foreign Websites and that of the publisher, to look for better prices.
- Make your book order available to an off-campus bookstore well before the start of the semester. Competition between bookstores will sometimes reduce margins. The NACS spokesman reported that "the 'average' markup for all textbooks has remained approximately 22 percent for many years." Further, bookstores facing competition may have an incentive to obtain books from foreign distributors who offer better wholesale prices.
- Consider continuing with the old edition of a text, if it is still in print, after a new edition is issued. An advantage to students is the availability of used books.

Related Web Sites

http://calpirg.org/reports/textbookripoff.pdf [*Ripoff 101: How the Current Practices of the Textbook Industry Drive Up the Cost of College Textbooks*, by Merriah Fairchild]

http://edworkforce.house.gov/hearings/108th/21st/textbooks072004/wl072004.htm [July 2004 Congressional testimony on the subject "Are College Textbooks Priced Fairly?"]

http://www.amazon.co.uk/ [Amazon UK site, for comparison of textbook prices]

http://finance.yahoo.com/m3?u [Yahoo currency conversion tables]

http://www.safarix.com [Pearson's SafariX WebBooks]

http://www.bookcentral.com/ [Arbitrage of foreign price differences, started by students from Williams College] ■