

## **Should University Presses Adopt An Open Access [Electronic Publishing] Business Model For All of Their Scholarly Books?**

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### **Abstract**

This paper analyzes U.S. university press datasets (2001-2007) to determine net publishers' revenues and net publishers' units, the major markets and channels of distribution (libraries and institutions; college adoptions; and general retailer sales) that these presses relied on, and the intense competition these presses confronted from commercial scholarly, trade, and college textbook publishers entering these three markets. ARIMA forecasts were employed to determine projections for the years 2008-2012 to ascertain changes or declines in market shares. The paper concludes with a brief series of substantive recommendations including the idea that university presses must consider abandoning a "print only" business model and adopt an "Open Access" electronic publishing model in order to reposition the presses to regain the unique value proposition these presses held in the late 1970s.

**Keywords:** Innovative business models for scholarly publishing; university presses; electronic publishing; Open Access; scholarly communication; marketing strategies.

### **1. Introduction**

Since the late 19<sup>th</sup> century, university presses in the United States have played a pivotal role, and some individuals might argue *the* pivotal role, in the transmission of scholarly knowledge [1]. University press books have become the "gold standard" in many academic fields (e.g., history; literature; and in certain areas of philosophy and sociology) in the departmental or college evaluation of a faculty member's scholarly output (and reputation) for tenure, promotion, and merit pay [2].

In 2008 these presses ranged in size from exceptionally large presses (with annual revenues in excess of \$50 million; e.g., Oxford University Press has U.S. annual revenues of approximately \$140million; Cambridge University Press, approximately \$60 million), to large presses (+\$6 million; e.g., University of Chicago Press), medium sized presses (approximately \$1.5-\$3 million; e.g., The University of Notre Dame), and relatively small presses (approximately \$900,000-\$1.5 million; e.g., Carnegie Mellon University). They publish peer reviewed: scholarly monographs; trade and professional books; textbooks; and, in some instances, scholarly journals that they own or publish under contract for academic societies (e.g., Pennsylvania State University Press). In this paper all university press books will be considered one category for analysis; however, additional research on the relationship between monographs and textbooks is needed.

Between 1945 and the late 1970s, the basic university press business model was incredibly successful since this diverse collection of presses had a unique value proposition. University press publishing during those years was a "cozy" world, where everyone knew someone who knew someone; and most editors

and press directors attended the same type of college (perhaps the Ivy League, small prestigious liberal arts colleges, or the large state universities). So these editors and publishers either went to school with or knew many of the major academic experts, who sent certain prestigious university presses their manuscripts and advised their graduate students to do likewise. During those years, the typical press received a “reasonable” level of financial and administrative support from its university; and presses were not expected to generate an annual “surplus” (i.e., a profit) [3].

The end result was these presses published superb books and, concomitantly, dominated the scholarly publishing field with preeminent sales in three major markets or channels of distribution: libraries and institutions; college and graduate school adoptions (in this paper “college” and “university” will be used interchangeably); and general readers (i.e., sales to general retailers). There was little competition from commercial professional scholarly publishing houses (the term “commercial professional scholarly publishing houses,” or “professional and scholarly publishing houses,” or “scholarly publishing houses” refer to the same cluster of publishing companies, and they will be used interchangeably in this paper). The vast majority of trade publishing firms tended to concentrate on “big, hit driven” fiction titles, although a cluster of firms (e.g., W.W. Norton or Random House) published serious scholarly works. By the mid to late 1970s, the total amount of net publishers’ revenues for all of these university press operations was quite “modest” (1972: \$41.4 million; 1977: \$56.1 million; all revenues used in this paper are U.S. dollars); and the suggested retail price for the typical university press book was often \$10.00-\$15.00 [4].

This was an important marketing strategy since inexpensive suggested retail prices (i.e., the MSRP) allowed the presses to penetrate the library market (the average university press expected to sell approximately 1,500 copies of each new scholarly book to academic and public libraries) as well as the college and graduate school adoption market, which often relied on scholarly titles from university presses in advanced undergraduate and graduate school courses. These presses tended to hire people who loved books; while wages were anemic, even by publishing industry standards, these presses offered editors an intellectually charged work environment in an academic environment that appealed to a significant number of people. The end result, a carefully written and edited and illustrated scholarly book, was indeed impressive.

We reviewed press subsidies for 58 university presses for the years 2001-2006 (data for 2007 will not be available until late 2008) [5]. The most important subsidy was a direct financial grant to a press, with 70.69% of the presses receiving these funds. However, a wide variety of other free support services were provided to presses, including: payroll and human resources (86.21%); legal services (84.48%); audit services (70.7%); office space (62.07%); accounting services (60.34%); utilities (50%); working capital (44.83%; e.g., to pay printers, etc.); employee benefits (39.66%); salaries (37.93%); insurance (36.21%); carrying cost of accounts receivable (34.48%); warehouse space (32.76%); carrying cost of inventory (29.31%); parking (17.24%); work-study students (paid for by the university; and interns from the business school, the English, or the mass communications department (no data on these options). These percentages remained rather constant during the years 2001-2006.

## **2. Significant Changes: The Emergence of “Black Swans”**

Yet this “insulated” world changed abruptly in the late 1970s (a phenomenon called a “Black Swan” because of the unexpected nature of the change) which continued during the following decades [6]. What happened?

Reliable statistical data is available for the years 1980 through 2007. However, because of the space limitations on this research paper, we addressed the years 2001-2007; and the ARIMA forecasting methodology was utilized to generate these projections) [7].

First, there was an increase in a number of new titles published in the U.S. by university presses as well

as by all publishers. Table 1 outlines these trends between 2001-2007.

Year	New Title Output University Presses	Annual % Change University Presses	Total New Title Output All U.S. Books	Annual % Change All U.S. Books
2001	10,130	—	N/A	N/A
2002	9,915	-2.12	247,777	N/A
2003	11,104	11.99	266,322	7.48
2004	9,854	-11.26	295,523	10.96
2005	9,812	-0.43	282,500	-4.41
2006	9,969	1.60	291,922	3.34
2007	10,781	8.15	400,000*	37.02*
2008	N/A	—	N/A	—

Source: Yankee Book Peddler; R.R. Bowker (revised totals since 2002). Totals include both hardbound and paperbound books. \*Rachael Donadio, “You’re An Author? Me Too!” *The New York Times Book Review*, April 27, 2008, page 27. The 2007 projection for all U.S. books was based on R.R. Bowker data in this article; Bowker issues all ISBNs in the U.S.

**Table 1: University Press New Title Output: 2001-2007**

Year	Net Publishers’ Revenues	Annual % Change	C.P.I. % Change	Net Publishers’ Units	Annual % Change
2001	474.8	N/A	2.85	24.6	N/A
2002	486.5	2.46	1.58	24.7	2.92
2003	494.8	1.71	2.28	24.6	-0.40
2004	501.0	1.25	2.66	31.4	27.64
2005	513.5	2.50	3.39	31.4	0
2006	531.0	3.41	3.23	29.0	-7.64
2007	546.9	2.99	2.85	28.7	-1.03
2008	563.3	3.00	2.80*	28.4	-1.05
2008	580.2	2.99	1.90*	28.2	-0.70
2010	597.0	2.90	2.10*	27.9	-1.06
2011	613.7	2.80	2.10*	27.7	-0.71
2012	630.3	2.70	2.10*	27.5	-0.70

Source: Greco & Wharton’s estimates for 2001-2007 and ARIMA projections for 2008-2012; Greco & Wharton, *Book Industry Trends* (New York: Book Industry Study Group, Inc., various years). All numbers rounded off to one decimal place and may not add up to 100%. Totals include data for hardcover and paperbound books. Consumer Price Index (C.P.I.) is for “all items.” All data refers to the sale of new books; used book sales are excluded. \*C.P.I. projections: The U.S. Congressional Budget Office (as of January 2008).

**Table 2: University Press Books: Net Publishers’ Revenues and Net Publishers’ Units  
2001-2007**

University press net publishers’ revenues (i.e., gross sales minus returns equally net revenues; the same system is followed for units) increased because of changes in the suggested retail prices of these books (which generally exceeded annual increases in the Consumer Price Index, the C.P.I.) while units sagged after 2005. Table 2 outlines these trends.

Since 1945, the three primary markets and channels of distribution for university presses were: (1) libraries and institutions; (2) college adoptions (which include graduate school adoptions); and (3) general retailers. The datasets for net publishers’ revenues indicated growth in all three channels. Total increases between

2001-2007 were: 7.73% for the general retailer sector; 14.9% for college adoptions; and 16.0% for libraries and institutions. Table 3 outlines these trends.

Year	Exports	General Retailers	College Adoptions	Libraries & Institutions Adoptions	High School	Direct to Consumer	Other
2001	60.6	109.9	114.8	125.6	8.6	52.9	2.4
2002	61.9	112.3	117.3	129.6	8.9	53.9	2.6
2003	63.1	114.3	119.5	131.5	9.0	56.3	2.5
2004	63.9	108.9	121.3	132.3	9.1	67.5	2.5
2005	65.5	111.5	124.3	135.9	9.3	69.2	2.6
2006	67.8	115.2	128.4	140.5	9.7	71.5	2.7
2007	69.5	118.4	131.9	145.7	10.0	73.3	3.0
2008	71.9	122.1	136.0	149.7	10.3	75.6	2.8
2009	74.1	125.8	140.1	153.9	10.5	78.2	2.9
2010	76.3	129.5	144.3	158.2	10.9	80.4	2.9
2011	78.3	133.2	148.4	162.4	11.2	82.7	3.0
2012	80.4	146.0	152.5	166.6	11.5	70.2	3.1

Source: Greco & Wharton's estimates for 2001-2007 and ARIMA projections for 2008-2012; Greco & Wharton, *Book Industry Trends* (New York: Book Industry Study Group, Inc., various years). All numbers rounded off to one decimal place and may not add up to 100%. Totals include both hardbound and paperbound books. All data refers to the sale of new books; used book sales are excluded.

**Table 3: University Press Books: Net Publishers' Revenues  
By Channels of Distribution 2001-2007  
With Projections for 2008-2012 (U.S. \$ Millions)**

Year	Exports	General Retailers	College Adoptions	Libraries & Institutions Adoptions	High School	Direct to Consumer	Other
2001	3.1	8.3	7.4	3.9	0.3	1.4	0.3
2002	3.2	8.1	7.2	4.0	0.4	1.5	0.3
2003	3.1	8.1	7.2	4.0	0.4	1.5	0.3
2004	4.0	9.9	9.6	4.8	0.3	2.2	0.3
2005	4.0	9.9	9.4	4.9	0.4	2.2	0.3
2006	3.7	9.2	8.7	4.6	0.3	2.0	0.3
2007	3.7	8.8	8.4	4.6	0.5	2.1	0.3
2008	3.6	8.8	8.3	4.6	0.5	2.1	0.3
2009	3.6	8.8	8.3	4.5	0.4	2.1	0.3
2010	3.5	8.9	8.3	4.4	0.3	1.9	0.3
2011	3.5	8.8	8.3	4.3	0.3	1.9	0.3
2012	3.4	9.3	8.4	4.3	0.3	1.6	0.3

Source: Greco & Wharton's estimates for 2001-2007 and ARIMA projections for 2008-2012; Greco & Wharton, *Book Industry Trends* (New York: Book Industry Study Group, Inc., various years). All numbers rounded off to one decimal place and may not add up to 100%. Totals include both hardbound and paperbound books. All data refers to the sale of new books; used book sales are excluded.

**Table 4: University Press Books: Net Publishers' Units By Channels of Distribution 2001-2007  
With Projections for 2008-2012 (Millions of Units)**

Between 2001-2007, net publishers' unit data reveals a flattening of sales in the library and institution sector (essentially no growth after 2007) and college adoption areas (another sector with flat sales after 2006). Based on a review of unit sales in the 3 major markets and channels, it appears likely the market for scholarly non-profit university press books has plateaued., a potential weakness for presses in those channels. Table 4 outlines these trends.

An analysis of the data for 2001-2007 revealed the substantial gains posted by professional and scholarly publishers in the university press' three main markets and channels in terms of net publishers' revenues. Revenues were up 18.01% in the general retailer sector, 17.21% in college adoptions, and 17.55% in the library and institutional market. Unit sales were also strong during those years: +14.31% in general retailers; +11.09% in college adoptions; and +14.08% in libraries and institutions. The prognosis for 2008-2012 was for continued strong growth in both revenues and units in all three markets. Table 5 outlines these trends.

Year	Net Publishers' Revenues			Net Publishers' Units		
	General Retailers	College Adoptions	Libraries & Institutions	General Retailers	College Adoptions	Libraries & Institutions
2001	1399.3	1204.3	1659.4	63.6	51.4	41.9
2002	1444.4	1245.8	1714.7	64.3	52.2	45.5
2003	1482.2	1274.1	1759.0	69.8	55.0	46.0
2004	1535.7	1315.6	1816.0	70.5	55.7	46.3
2005	1547.5	1326.0	1832.7	71.2	56.4	47.1
2006	1599.7	1370.5	1893.8	71.5	57.0	47.6
2007	1651.3	1411.6	1950.7	72.7	57.1	47.8
2008	1692.2	1448.9	2002.6	72.7	57.4	48.2
2009	1734.8	1486.5	2054.6	72.9	57.7	48.3
2010	1777.6	1522.9	2104.4	72.9	58.0	48.4
2011	1821.3	1560.3	2155.3	72.9	58.3	48.5
2012	1872.0	1600.0	2207.2	73.1	58.5	48.8

Source: Greco & Wharton's estimates for 2001-2007 and ARIMA projections for 2008-2012; Greco & Wharton, *Book Industry Trends* (New York: Book Industry Study Group, Inc., various years). All numbers rounded off to one decimal place and may not add up to 100%. Totals includes both hardbound and paperbound books. All data refers to the sale of new books; used book sales are excluded.

**Table 5: Professional and Scholarly Publishers: Net Publishers' Revenues and Net Publishers' Units (2001-2012) for Sales to General Retailers, College Adoptions, and Library & Institutions (U.S. \$ Million; Millions of Units)**

The pattern for college textbooks in these three markets was equally impressive. Sales to general retailers increased 17.65% between 2001-2007, with the tally for college adoptions hovering near the 17.64% mark, topping the 15.77% increase in the library and institutional market. Unit data was equally striking: +20.0% in general retailers; +10.11% in college adoptions; and +13.33% in the library and institutional market. Table 6 outlines these trends.

A comparison of the revenue sales patterns for university presses, professional and scholarly publishers, and college textbook in the three channels was revealing, illuminating the impressive market shares held by professional and scholarly and college text book publishers.

- general retailers: university presses, +7.73%; professional & scholarly, +18.1%; college textbooks, +17.65%;
- college adoptions: university presses, +14.9%; professional & scholarly, +17.21%; college textbooks, 17.65%;

- libraries and institutions: university presses, +16.0%; professional & scholarly, +17.5%; college textbooks, 15.77%.

Year	Net Publishers' Revenues			Net Publishers' Units		
	General Retailers	College Adoptions	Libraries & Institutions	General Retailers	College Adoptions	Libraries & Institutions
2001	175.6	2875.4	274.6	3.0	47.1	3.0
2002	178.3	2930.8	279.6	3.1	47.7	3.1
2003	181.5	2989.7	285.5	3.3	49.8	3.1
2004	189.8	3133.7	291.8	3.5	56.1	3.4
2005	193.6	3197.2	297.6	3.5	55.7	3.4
2006	199.7	3293.8	307.3	3.5	56.0	3.4
2007	206.6	3382.5	317.9	3.6	56.1	3.4
2008	211.6	3478.7	325.9	3.6	56.4	3.5
2009	217.1	3575.8	334.4	3.6	56.7	3.5
2010	222.9	3677.7	343.2	3.6	57.1	3.5
2011	228.8	3777.2	352.1	3.6	57.4	3.5
2012	234.9	3880.0	362.4	3.6	57.7	3.5

Source: Greco & Wharton's estimates for 2001-2007 and ARIMA projections for 2008-2012; Greco & Wharton, *Book Industry Trends* (New York: Book Industry Study Group, Inc., various years). All numbers rounded off to one decimal place and may not add up to 100%. Totals includes both hardbound and paperbound books. All data refers to the sale of new books; used book sales are excluded.

**Table 6: College Textbook Publishers: Net Publishers' Revenues and Net Publishers' Units (2001-2012) for Sales to General Retailers, College Adoptions, and Library & Institutions (U.S. \$ Million; Millions of Units)**

Year	New Title Output	Annual % Change
2001	41,016	N/A
2002	43,554	6.19
2003	47,662	9.43
2004	44,981	-5.63
2005	42,975	-4.46
2006	47,124	9.65
2007	48,951	3.88
2008	N/A	N/A

Source: Yankee Book Peddler; R.R. Bowker (revised totals since 2000).

**Table 7: New Title Output Scholarly Books Published by Professional and Scholarly and Trade Publishers: 2001-2007**

New title output of scholarly books by professional and scholarly publishers and trade publishers increased 19.35% between 2001-2007. Table 5 outlines this trend.

Second, the emergence of the "serials crisis" (i.e., the growth in the number of and annual subscription prices for scholarly journals, often owned by large commercial scholarly publishers (e.g., Elsevier; Wolters Kluwer; Springer; Blackwell; John Wiley; Taylor & Francis; etc.), triggered declines in the academic library purchases of university press books (about 1,500 in the mid-1970s; about 200-300 in 2008) [8].

Third, the decline in the number of independent bookstores (about 4,400 in the 1970s and 1,800 in 2008) and the rise of book superstores (Barnes & Noble; Borders; Books-A-Million) [9]. Fourth, a dramatic change in book retailing channels of distribution, the rise in importance of the mass merchants (e.g., Wal-Mart; K-Mart; Target), price clubs (e.g., Costco, BJ's; Sam's Clubs), and other retailing establishments (e.g., supermarkets; drug stores; convenience stores; terminals; etc.) [10].

Fifth, precipitous declines in media usage (i.e., annual hours per person, above the age of 18, reading books) [11]. Sixth, the development of an interest in publishing scholarly titles by many of the large trade houses [12]. Seventh, the growth of the college textbook educational publishing sector [13]. Lastly, by the 1990s and the early years of the 21<sup>st</sup> century, several "disruptive technologies" emerged (e.g., the Internet and electronic publishing options; print-on demand, POD; the Open Access movement; etc.) that challenged traditional concepts regarding the distribution of intellectual content [14].

Starting around 1980, the majority of all university presses witnessed a sophisticated pincer movement by commercial trade, professional, and textbook companies eager to take business and market share away from university presses. In essence, the basic competitive advantage of university presses (i.e., the ability to dominate the publishing of scholarly books in their three key markets and channels of distribution) changed, at first slowly and then more rapidly; and many university press directors and editors (and many academics rightfully concerned about this situation) pursued innovative, and, unfortunately in some instances, unsuccessful strategies and responses to the frontal attack of commercial publishing companies.

One cluster of press directors (and major industry leaders) issued jeremiads about the state of scholarly publishing, and they were joined by academics that ruminated, "How can I get tenured if you cannot publish my book?" Many directors (and industry leaders) tried to convince provosts and president to increase their funding to counterbalance the decline in sales. The next strategy was to ask foundations for funding to analyze the decline in sales. Lastly, some presses went to foundations for seed money to publish books in "critical areas" [15]

Another group of directors, more attuned to the ideas of finance and marketing, reevaluated their basic business models; and they crafted defensive strategies, including: reducing the print run of new books; curtailing "duel editions" (often called "split runs;" i.e., the simultaneous printing of a hardbound and paperbound version of a new title); outsourcing line editing and certain production tasks; off-shore typesetting and printing; reducing support staff (often secretaries); and changing domestic distributors, often going to one of the major university press distribution operations or relying on a printer to handle distribution and fulfillment.

Some of these strategies worked; and some did not. In the years after 1980, two dramatic and completely unanticipated developments occurred, known as a "Black Swan" to economists and marketers, which took the majority of press directors, editors, and industry leaders off guard.

First, far too many university presses failed to realize that the basic laws of supply and demand cannot be rescinded. They continued to increase title output (even when trimming print runs) as demand for their books sagged.

Second, "Wall Street" firms decided to invest in the book industry. The term "Wall Street" refers to financial service companies in New York, Boston, Chicago, San Francisco as well as London, Paris, etc.; for example, Bain & Co., Thomas S. Lee, JP Morgan, Goldman Sachs, etc.). Many commercial scholarly presses, trade houses, or college textbook companies were viewed by a growing number of Wall Street investment bankers, private equity managers, and hedge fund executives as either "value stocks" or "growth stocks;" and they invested in many of these companies, taking a few of them "private" [16]. This influx of invested money allowed these commercial publishing companies to gain access to needed capital (known as "capital deepening" to economists and marketers) for investment and expansion.

Why did Wall Street firms target book industry companies when they could have invested in more “glamorous” industries and firms? These Wall Street companies realized that book publishing economics were harsh and unforgiving; but they were understandable and quantifiable. This meant they could develop sophisticated statistical models to predict future earnings. For example, professional and scholarly book publishing companies (as of January 2008) had a low “beta,” which is a measure of volatility. In general the Standard and Poor’s Index has a “beta” of 1.00. So a stock with a “beta” higher than 1.00 has a higher volatility but generally generates higher returns than the stock market; a “beta” below 1.00 has a lower volatility but generally generates lower returns. For example, during the months of March and April 2008, Pearson PLC had a “beta” of 0.95; McGraw-Hill’s “beta” was 1.24; John Wiley’s “beta” stood at 1.57; and Reed Elsevier’s “beta” was a rather low 0.65. As a point of comparison, during this same time period, Hewlett-Packard’s “beta” was 1.09 and Amazon.com was 3.18 [17]. Scholarly and professional companies also had high “alphas” (i.e., successful editors and publishers able to find and cultivate authors who make money for the house). Clearly, many of these commercial scholarly, trade, and college textbook firms were targeted by Wall Street for investment and expansion.

Scholarly and professional publishers, many trade publishers (including Bertelsmann AG’s Random House; Pearson PLC’s Penguin; News Corp.’s HarperCollins; CBS’ Simon & Schuster; and Lagadere’s Grand Central, formerly Little, Brown and Warner Books), and all of the major textbook publishers (e.g., Pearson PLC’s Prentice-Hall; Cengage Learning, formerly Thomson Learning; McGraw-Hill; John Wiley-Blackwell; Von Holtzbrinck; Informa’s Taylor & Francis; etc.) crafted innovative strategies to penetrate and increase their market positions in the scholarly publishing world, including: attracting major scholars with advances (e.g., Professor Mankiw was paid \$1.6 million in 1996 by Harcourt, now part of Cengage, to write a principles of economics textbook), generous “step” royalty options, aggressive marketing strategies enlarging and expanding channels of distribution in this nation and abroad [18].

In the years after 1980, these commercial publishing companies were able to sell their scholarly tomes or textbooks, pay taxes (university presses are exempt from taxes since they are non-profit entities under the U.S. Internal Revenue Code), provide appealing wages for employees (they hired people who loved books that made money); and make profits for their stockholders.

Many of the major commercial scholarly presses also published scholarly journals. Realizing the significant impact electronic journals had on their balance sheets (no printing, paper, binding, mailing, fulfillment, warehouses, warehouse personnel, etc.), many of the largest houses began to offer electronic versions of their books (either an entire book or one or more chapters in a title), a trend that was followed by the major college textbook publishers; as of 2008, trade houses have been unable to monetize significantly their content in digital platforms. While hard data on electronic sales revenues are difficult to obtain (quarterly and annual financial reports are silent on this issue), it is likely that between 15%-20% (well over \$1 billion) of scholarly and professional net publishers’ book revenues were generated through electronic sales or site license agreements. The number for textbooks is perhaps 5% (approximately \$250 million); and trade publishers generate about \$60 million annually through digital sales [19].

### **3. The Business Environment for University Presses: 2001-2006**

Can university presses develop realistic marketing plans and regain their competitive advantage? Can they challenge the hegemony of large, global commercial publishers? In light of the proliferation of technological services, are university presses relevant and needed in the 21<sup>st</sup> century? Are these university presses needed?

### Business Model Assumptions

Print Run:	1,000 copies	
Gross Sales:	970 copies	[1,000 copies; -3% of print run for author's copies, office copies]
Export	-20 copies	
General Retailers	-183 copies	
College Adoptions	-239 copies	
Libraries & Institutions	-184 copies	
High School Adoptions	0 copies	
Direct to Consumers	-20 copies	
Other	0 copies	
Net Sales:	646	
Suggested Retail Price:	\$65.00	
Average Discount:	47%	[Publisher nets \$34.45 per copy]
PPB:	\$5,341.13	[Printing, Paper & Binding; approximately 19% of net sales industry average]
Plant:	\$1,124.45	[Editorial and typesetting; approximately 4% of net revenues; industry average]
Marketing:	\$1,000.00	[\$1 times number of printed copies]
Royalty Advance:	0	
Royalty Rate:	—	[0% for first 500 copies sold; 10% of net revenues for +501 sold copies]
Subrights:	\$200.00	[filmed entertainment; reprints; book clubs; foreign rights; serial rights; 50% for author and 50% for publisher]

### Revenues and Expenses and Net Profit/Loss

1. Gross Sales:	\$33,416.50 [970 copies x \$34.45@]
2. Returns:	-\$5,856.50 [170 copies x \$34.45@]
3. Net Sales:	\$27,560.00
4. Plant:	-\$1,124.45
5. PPB:	-\$5,341.13
6. Earned Royalty:	-\$502.97 [146 copies at \$3.445@]
7. Inventory Write-Off	-\$1,730.53 [970 – 646 = 324 copies x \$5.34@]
8. Total Cost of Goods Sold:	\$8,699.08 [COGS; #4 + #5 + #6 + #7]
9. Initial Gross Margin:	\$18,861.00 [#3 - #8]
10. Other Publishing Income:	+\$100.00 [50% to publisher]
11. Final Gross Margin:	\$18,961.00
12. Marketing:	-\$1,000.00
13. Overhead:	-\$8,268.00 [30% of net sales revenues]
14. Net Profit/Loss:	\$9,693.00

Source: Greco's estimates; industry averages.

**Table 8: Sample Profit & Loss (P & L) Statement for a Hardbound University Press Book**

An analysis of a “typical” university press book’s profit and loss (P & L) provides a preliminary framework in order to address some of the questions listed above. We start with a series of basic business assumptions regarding: (1) the print run; (2) gross sales; and (3) potential sales to exporters, general retailers, college adoptions, libraries and institutions, high school adoptions, direct sales made by the press direct to consumers, and any “other” sales. These assumptions are based on past experiences for similar books and a healthy dose of optimism (perhaps more of the latter than the former).

The next step is to determine: (1) net sales (gross sales minus sales); (2) the suggested retail price; and the average discount (books are sold to retail establishments and distributors at a discount; industry averages were utilized in all of these calculations). Other expenses are estimated: (1) printing, paper and binding (PPB; 19% of net revenues is the industry average); (2) editorial-typesetting, etc. (plant; 4% of net revenues is the industry average); (3) marketing; (4) the royalty advance against earned royalties; (5) the royalty rate; and (6) any foreign or sub rights.

Once these estimates are determined, the actual financial P & L can be run: (1) gross sales minus returns equals net sales revenues (in general, most books are fully returnable to the publisher for a full credit as long as the published terms and conditions of sale are followed by the retailer or distributor); (2) plant, PPB, earned royalty, and inventory write-offs are subtracted from net sales to determine the total cost of goods sold and the initial gross margin; (3) other income is added to the initial gross margin to calculate the final gross margin; (4) marketing costs and the ubiquitous overhead are deducted from the final gross margin; and (5) the end result is either a net profit or a net loss.

Table 8 indicates that this “typical” book, which took months to edit and print and tied up thousands of dollars, generated a net profit of \$9,693.00. Any slippage in sales could have generated a loss. Our extensive research (and hundreds of discussions with university press directors, commercial scholarly publishers, and trade book executives) indicated that seven out of every ten new books lose money, two books break even financially, and one is a financial success.

The vast majority of university presses post financial losses annually, even with subsidies from their universities. Table 8 outlines in detail the economics of publishing a book.

The second analysis centered on a study of 63 university presses between 2001 and 2006 (no data for 2007). These presses ranged in size and had annual revenues between \$900,000-\$1.5 million (22 presses), \$1.5 million-\$3 million (16 presses), \$3 million-\$6 million (18 presses), and more than \$6 million (8 presses).

In terms of net operating income (i.e., total book sales income plus any other publishing income minus operating expenses; editorial, production and design; order fulfillment; etc.), losses were posted for all of these presses between 2001 and 2006. The addition of direct parent institution financial support, other subsidies-grants-endowments, and “other press activities) changed the economic picture, somewhat. These 63 presses recorded positive total net income results in 2004, 2005, and 2006; losses were generated in 2001, 2002, and 2003. We estimate that a positive net income will be posted by these presses in 2007 and a negative net income in 2008 (and possibly in 2009).

So book operations for 6 years had losses; and financial support from the parent institution ameliorated the situation in 3 of these 6 years. In reality, the basic business model of selling printed scholarly books by university presses did not work between 2001-2006, and a review of substantive datasets revealed it has not worked since 1945. If parent institutions trimmed even slightly their financial commitments to the presses, the majority of presses would be in the red financially and deeply in the red. What should these presses do.

#### **4 . Recommendations**

Based on an analysis of the relevant, available data, we believe that university presses should consider adopting an exclusive Open Access (i.e., an electronic publishing) policy. While each press would continue to utilize the well established and critically important peer review process for manuscripts and develop its own guidelines, we believe it is imperative financially and economically for these presses to consider the following. First, institute a realistic manuscript submission fee structure, paid by the author(s) (or the author’s academic department and/or college), perhaps \$250.00, to cover the initial internal editorial costs

associated with reviewing a submission. Second, if the manuscript had merit and fits into a press' list, a second fee paid by the author(s) (or the author's academic department and/or college-university), perhaps \$250.00, would cover the expenses of sending the manuscript out for peer review.

Many scholarly journals have similar fees, paid for by the author(s) or the author's department or college; and most universities currently provide some budgets for academics to attend scholarly conferences. This fee structure would become another cost in running a department or college. Another issue centers on the fact that approximately 95 U.S. university presses support the scholarly book publishing activities of academics at more than 3,000 U.S. colleges and universities as well as foreign colleges and universities. So a fee structure provides financial support for the university presses that bear the brunt of reviewing, editing, and publishing an important number of books for faculty members at colleges that do not have a press.

Would a fee structure place an unreasonable burden on an author earning a meager salary at a small college and/or a department at a college that did not have the financial resources of a well endowed university? Yes; and the existing playing field is not even. Academics at universities with low teaching schedules and access to substantial financial resources for research have an important competitive advantage over scholars at under funded departments. These are very serious issues, but they are clearly beyond the scope of this paper.

Third, if the peer reviewers recommended publication, a final fee, paid by the author(s) (or the author's academic department and/or college), perhaps \$10,000.00 to cover costs associated with line editing, typesetting, posting the book on the press' Open Access site, etc. Any or all of these fees can or should be waived for academics from developing nations.

Table 9 outlines an Open Access P & L.

A small press using Table 9 and releasing 20 Open Access books would generate \$128,511. in profit; a large press releasing 100 titles would generate \$642,555.00 in profit.

Three other calculations must be considered. First, we were told that the average press received about 10 manuscripts for every one published. Assuming the fee based structure dampened the submission of manuscripts, and the small press received 100 submissions at \$250.00 each, an additional \$25,000.00 in extra income could be booked; the large press might receive 500 submission fees of \$250, generating an additional \$125,000.00 in revenues. Second, not every press had a contract with an author covering electronic rights. So some backlist titles (i.e., a book more than 9 months old) would remain as a print only book, although POD could handle these titles. Third, the existing inventory would have to be stored in a warehouse, triggering costs. It could take at best 4-5 years (2012-2013) to reduce this inventory through sales (or write-offs).

The movement toward an Open Access only system provides positive financial results for university presses, allows them to compete with other publishers that are moving rapidly toward the electronic distribution of content, and puts these presses on a sound financial footing, allowing them to continue to exist in both good and bad economic business cycles.

<b>Business Model Assumptions</b>		
Print Run:	0	
Net Sales:	25	POD [POD is print on demand]
Suggested Retail Price:	\$30.00	POD [\$10.00 unit manufacturing cost]
Average Discount	0	
PPB:	0	
Plant:	\$1,124.45	
Marketing:	\$100.00	
Royalty Advance:	0	
Royalty Rate:	—	[10% of net revenues for all POD copies]
Subrights:	\$200.00	
<b>Revenues and Expenses and Net Profit/Loss</b>		
1. Gross Sales:	\$750.00	[25 copies x \$30.00@]
2. Returns:	0	
3. Net Sales:	\$500.00	[25 copies x \$30@ - unit manufacturing cost \$10@]
4. Plant:	-\$1,124.45	
5 Earned Royalty:	-\$50	[copies at \$2.00]
6 Inventory Write-Off	0	
7. Peer Review Fee	-\$250.00	
8 Total Cost of Goods Sold:	\$1,424.45	[#4 + #5 + #7]
9. Other Publishing Income:	+\$100.00	[sub rights; 50% to publisher]
Submission fee	+\$250.00	
Peer Review Fee	+\$250.00	
Publication fee	+\$10,000.00	
10. Marketing:	-\$100.00	
11. Overhead:	-\$3,000.00	[30% of \$10,000.00 publication fee]
12. Net Profit/Loss:	\$10,000+\$250+\$500+\$100 = \$10,850.00	
	\$10,850 - \$1,424.45 - \$3,000 = \$6,425.55	profit for this book

Source: Greco's estimates; industry averages.

**Table 9: Sample Profit & Loss (P & L) Statement for an Open Access University Press Book**

## 5. Conclusions

Clearly, the world changed in the last 20 years. Computers, the Internet, i-Pods, and cell phones seemed to sprout up everywhere (or in most developed nations); and satellites linked most regions of the world. Yet far too many university presses maintained a centuries old commitment to an unprofitable business model for their books.

Based on an analysis of the empirical data, a review of the published literature and existing business models, our visits and discussions with leaders at more than 50 U.S. university presses [e.g., Harvard, Princeton, MIT, Chicago, Stanford, Carnegie-Mellon, Duke], our discussions with faculty members, and our focus group interviews with more than 500 undergraduate and graduate students), we recommend the following procedures to insure the continued viability of university presses.

First, all direct university press financial subsidies (excluding non-financial subsidies, e.g., free rent, free access to legal services, etc.) provided by their home university should be discontinued by 2012-2013. Of

course in a market economy, any university that insisted on providing a financial subsidy to its university press can continue this policy. Second, in light of the increased utilization and acceptance of “Open Access” [and electronic publishing] publication models in the scholarly journal sector, a realistic electronic publishing “Open Access” business model should be adopted by university presses for “all” of their books by 2012-2013.

Third, existing stringent peer review should be maintained by each university press as it adopts an Open Access business model. Fourth, each university press should determine an appropriate Open Access fee to be paid to the press after a manuscript has undergone peer review and after it has been accepted for publication by a press; this fee can be paid by the author(s), by the author’s academic department and/or college, through research grants-funds, etc.; waivers of the Open Access fee should be granted to an author(s) from a developing country.

Fifth, each university press should consider selling a hard copy, preferably one produced through a “print on demand” (POD) system, to any individual, library, etc. that prefers or needs a hard copy. This Open Access-POD procedure has been utilized successfully by a number of non-profit publishers (e.g., National Academies Press; The World Bank). Sixth, the “university press community,” working with librarians, NGOs, etc., craft a global marketing strategy (by 2012-2013) to license digital content in developing nations, especially titles addressing pivotal issues related to economic development, poverty, disease, global warming, and globalization.

Seventh, it appears likely, at least in the next 3-5 years, that the scholarly book will remain the principal scholarly platform in the tenure, promotion and merit process in the humanities and in many areas of the social sciences. It will take more than 4-5 years to convince deans and provosts that peer reviewed Open Access electronic books have the same value as a printed book. What might expedite thinking in academia is the “acceptance” of “electronic books” and “electronic book readers” in the trade book market.

Eighth, the transformation to an Open Access publishing platform will take 4-5 years. Contracts for many backlist books (especially contracts from the 1990s) might not contain clauses regarding the electronic distribution of a specific author’s book; and unless those contracts are renegotiated, those titles will remain print only. Recently signed contracts (for manuscripts to be delivered in 2008, 2009, and possibly 2010) are unlikely to contain an only Open Access clause; unless they are renegotiated, these books will remain print only. So it is likely that a university press will have to announce its Open Access policy; and new contracts for manuscript submission in 2010 or 2011 will have to contain the appropriate language. Will some academics refuse to submit a manuscript to an open Access university press? Yes; but the “publish or perish” mindset of university deans and provosts might be a significant counterbalancing force.

However, our analysis sparked some intriguing questions.

First, are university presses necessary in an age of electronic distribution of content and a plethora of publishing opportunities offered by scholarly, trade, and textbook publishing companies, all with a broad reach and financial resources that exceed the vast majority of most university presses? University presses have a mission to publish and disseminate scholarship, and they offer a useful counterbalance against commercial publishers, although university press title output should be reduced to better match demand against the supply. Would scholarship continue to flourish in a strictly commercial publishing environment? While the precise answer to this question is unknown and unknowable unless all university presses disappeared, the outpouring of research titles from commercial publishers might indicate scholars could continue to get their research out to academics and students.

Second, is the institutional affiliation of university presses necessary in an Open Access-commercial publishing environment? From a financial point of view, the answer is no. Universities could reallocate press funding to support other activities, including faculty salaries, scholarships, Open Access publication

fees, etc. If we evaluate the social mission-public relations component of a university affiliation, we might reach a different conclusion. We asked this question to a number of press directors, and one response was telling. The director told us, “R\_\_\_\_\_ University gets great P.R. every time we publish a book that is reviewed in *The New York Times*, especially if we do a book that had broad consumer appeal and is highlighted in an article by the Associated Press.” There is no easy answer to this question.

Third, the electronic distribution of content by commercial scholarly and textbook publishers has been, at least so far, dependent on downloads onto desk or laptop (notebook) computers and not e-book readers. Price and convenience have been the two main reasons. The average e-book reader costs between \$300 and \$400, and then you have to pay for the book download. Most academics and students have computers, making downloads relatively easy. The newest e-book reader (the highly publicized Kindle) has a black and white screen; most textbooks and many scholarly books rely on color for charts, graphs, etc. So the price of the e-book reader would have to be reduced significantly to penetrate the academic market (in essence the “King Gillette” model would have to be utilized) and offer color options.

Fourth, what is the relationship between print only sales and electronic downloads? While we reviewed data on print sales for 2001-2007 (in reality we also reviewed print sales datasets back to the 1960s), no publisher has released data on electronic downloads. We reviewed quarterly and annual financial reports, Wall Street analyst’s reports, conference calls with stock analysts, and visits to a number of publishing companies. Publishing executives told us they book electronic download revenues and not units; and they did not release any data on the ratio between print and electronic download sales. We investigated this issue unsuccessfully in the summer of 2007; however during the fall of 2007 we began to observe certain patterns that provides a “working analysis” of download revenues. We know that McGraw-Hill textbook operations sold 10,000 downloads in 2006, although we could not ascertain whether these were full book downloads and/or book chapter downloads. We estimate that the revenue number for commercial scholarly publishers is perhaps \$1 billion; textbooks are approximately \$250 million; and trade publishers generated about \$60 million in 2007 through digital sales. However, a significant amount of research is needed to develop firmer numbers.

Fifth, many universities have launched online course initiatives; and Harvard University’s faculty of arts and sciences created an opt-out only policy regarding Harvard’s posting of scholarly journal articles. Both of these developments are too recent to evaluate in the context of the Open Access book movement, although both will require analysis in the next year or so.

The ultimate goal of all U.S. university presses is to reach readers able or unable to access or purchase printed university press intellectual content or books. Clearly, university presses in the U.S., and indeed throughout the world, face exceptionally complex problems related to their intellectual products, convoluted distribution systems, and the increased competition from commercial trade, scholarly, and commercial textbook publishers who are moving rapidly into the electronic publishing of their content.

There are no “simple” answers to any of these thorny problems; and a review of the published literature reveals the complexity associated with the current emphasis on printed scholarly books [20]. However, we believe a realistic Open Access (electronic publishing) business model will better position university presses to fulfill their mission to disseminate scholarly knowledge and, concomitantly, mitigate the debilitating economic problems that are undermining the very foundation of these presses and threatening their future.

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