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Changing the Subscription Services Pricing Model

by Dan Tonkery

At the 1996 Charleston Conference some of the most heated debates among both the subscription vendors and attendees centered around RoweCom and Faxon's implementation of added charges on non-discount titles. Most of the concerns raised about RoweCom were raised by representatives of other vendors. There is a clear feeling that the new approach to pricing subscription service based on a fixed unit price by RoweCom will lead to service failures and other agents are being pressured to match the rates or develop systems to allow the users to handle much of the transactions via some electronic means.

At this time the low \$5.00 per title offered by RoweCom is well below the unit cost of other agents and as long as RoweCom stays with the publishers that have infrequent service problems, the pricing model will work, leaving the more costly and difficult to service titles to the other agents. It is clear that other agents with traditional cost structures will have a difficult time processing orders profitably at \$5.00 per order. However, the new service is a wake up call for the subscription industry and business as usual is no longer the norm.

The other hot topic raised by the attendees focused on Faxon's sudden implementation of added charges on the non-discount titles. Few would question the financial drain that the non-discount titles have on any agent; however, most attendees questioned the manner and timing of the added charges. At least Faxon was open and honest and announced the changes rather than just implementing it quietly and hoping no one would figure it out.

Perhaps there should have been more education of the library community on the issue of the non-discount publisher. Most agents handle the mix of titles with a general service charge and for years the cost of carrying the non-discount publisher has been built into the overall price of the service charge. With non-discount titles accounting for over 20% of all titles sold by agents, the burden of no income is passed to the client through higher service charges or the agent depends heavily on the generosity of the STM publishers to help cover the loss of income from the non-discount publisher.

Just as it is unfair to have one library subsidizing the service charge of another library, perhaps it is unfair to place the burden of covering the cost of servicing

the non-discount titles on the commercial or STM publishers. Maybe it is time for each library to pay the cost of serving the unique collection of titles for the institution, including supporting the cost of servicing the non-discount publishers. Faxon has adopted this approach with the 1997 subscription year and expects other agents to follow.

Under the present system, subscription agents use the profit from one library's list to cover the cost of supporting some other institution. The amount of work is not equal across the various titles and agents have a good insight into the high cost titles or even publishers. Maybe it is time to consider a pricing system that reflects the true cost of delivering the service.

The new pricing model at the individual title level offered by RoweCom is a first step in the proper direction and Faxon's implementation of added charges on non-discount titles is a clear attempt to

"Why should subscription rates climb for everyone?"

recover some of the higher cost of servicing this category of titles rather than raising everyone's service charge. One should remember that this is not the first time an agent has had to deal with the non-discount publishers. Some agents have already selected certain titles on which to place added charges such as GPO and others have even tried to delay payment to the non-discount publishers by sending either post-dated checks or other systems of trying to penalize the non-discount publisher.

What is clear in the subscription industry is a new system of pricing for services is close at hand. With the continuing decline in publisher discount and the growth of non-discount publishers, the subscription vendors are forced to raise subscription service charges or to develop new pricing models in order to survive. Each subscription agent's business is based on the cost of processing a title or subscription order and the agent can calculate the cost per subscription figure for serving different types of titles that is used in establishing a service charge. Perhaps the industry should consider changing the subscription pricing model which has been based on the service charge and consider offering at least the option of going to a unit rate for each title.

Changing the service charge from a percentage of the publisher's list price to a unit price based on the amount of work required to service the title is a much fairer system of recovering the cost of doing business. Why should certain libraries continue to support their neighbor's subscription list and why should the STM publishers continue to raise the rates and pass on large discounts to agents? Publishers should consider the unit price payment system as well. The cost of processing a new subscription or handling a renewal is a fixed rate that has nothing to do with the price of the journal. Under the present model the publisher of a \$600 journal at 7% discount provides \$42 to the agent to process the title. The agent uses this income to cover the processing cost of the \$150 journal which is offered at no discount.

Perhaps it is time to change the system and convert to a fixed rate per order that reflects the actual cost to the library and the publisher. Under this system the agent could charge varying rates based on the amount of work involved with both the library and the title. The unit rate could range from a low of \$5 to a high of \$50 based on the workload and service requirements. Another approach might be just to unbundle the high cost services and pass the cost on to the libraries that use these services instead of passing on the cost to the entire client base.

Recent changes in the subscription industry will continue to gain momentum. RoweCom and similar products from other agents will continue to gain market share as libraries are looking for cost saving opportunities. Finding a source of income to cover the cost of handling the non-discount publishers is a pressure that all agents must deal with. Faxon's approach is not unreasonable and long overdue in our industry. Why should subscription rates climb for everyone?

Print journals subscription units continue to decline at a rate close to 6% per year. With the coming switch to electronic formats for many of the STM journals, the role of the agent and income from the publishers' discount is in question anyhow. Testing a new pricing option is long overdue.

Libraries are in a position to demand new pricing options from the agent — especially when you suspect that your library is one of the institutions that has been paying the cost of other institutions for many years.