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Barry Fast
Academic Book Center

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Issues in Vendor-Library Relations – Booksellers and Consortia (Part I)

by **Barry Fast** (Vice President, Academic Book Center) phone: 800-326-3080 <barryf@acbc.com>

Column Editors: **Judy Webster** (U. of Tennessee) <jdwebster@utk.edu>
and **Barry Fast** (Academic Book Center) <barryf@acbc.com>

Self interest is a normal, even necessary human trait. But as social animals, the more enlightened among us can subjugate self interest to the greater good of the group. When libraries join together in cooperative enterprises like consortia, enlightened self interest is guiding the process. Librarians are willing, in the consortium environment, to place many cooperative goals ahead of individual goals in order to create a greater good for the group. This is a welcome development, and publishers and vendors should try to respond to this enlightened self interest. For decades we've talked about resource sharing, and consortia provide an ideal environment for cooperation. The role of vendors should be to help libraries accomplish this goal. But will libraries let us help?

As librarians explore the consortium model as a cooperative endeavor, so much of the discussion seems to center on the power of pooling purchasing dollars. Materials budgets are indeed one kind of resource, so it is sensible to discuss how a combined consortium budget can affect purchasing. The ability to leverage a large amount of purchasing power certainly gets vendors' attention, but does it always result in lower prices or higher discounts?

"Do economies of scale come into play when libraries cooperate in a consortium and pool their buying power?"

To answer this question, let's look at some basic realities.

The underlying principle here is a function of economies of scale, to a large extent, and to a lesser extent good old-fashioned fear. First, fear. Vendors fear losing existing business more than they fear not getting new business. The reason for this is that existing business is already factored into planning and profit performance. The loss of a significant chunk of revenue has a negative effect on profitability because the company is geared up to operate at a planned level of performance. It is not easy to compensate quickly for a sharp drop in revenue, sometimes because you don't know the real effect of that drop, and sometimes because compensating cost reductions just can't be made soon enough. You can't, for instance, lay off 3.4% of your workers without some planning and a fair

payoff program. But not getting new business, as serious as that is, does not have the same kind of short term negative effect on profitability. A business can usually weather a series of near misses in attaining new revenue more easily than a series of losses of existing revenue.

If vendors foresee a loss of revenue from one or more individual library consortium members due to a consortium-wide purchasing arrangement, there is probably more pressure to raise discounts or lower prices to the whole consortium to avoid losing some large individual customers within the consortium. But even that pressure is subject to the more important principle underlying pricing: the effects of economies of scale. Do economies of scale come into play when libraries cooperate in a consortium and pool their buying power? The answer is, it depends.

Electronic journals and some other products seem to lend themselves to economies of scale. If an e-journal publisher can create and sell a package of e-products to a whole consortium, for sharing within the consortium, the resulting revenue may offset the loss of individual subscriptions to some of those e-products. The total revenue may be less than the aggregate revenue resulting from smaller but more numerous individual library subscriptions, but there may be offsetting economies of scale like lower subscription marketing and maintenance costs. Or there may be a long-term subscription arrangement that provides the publisher with a steady and predictable revenue stream. The operative factor here is that the publisher is

deriving a tangible benefit, either lower costs or more stability, that partially or completely offset the reduced revenue.

Booksellers, unlike publishers, find that the large majority of their costs are confined to labor. It is difficult to see how a consortium-wide arrangement lowers these costs through economies of scale.

Assuming the consortium members still want shipments sent to each library, and order separately from each library, and want a separate approval plan for each library, the labor factor remains pretty much fixed on a library by library basis. Suppose the vendor is supplying books to five individual libraries within the consortium. A deal is then struck to provide books to all ten of the consortium member libraries. What changes? What costs are lowered by economies of scale? Assuming revenue has doubled, from the book budgets of five libraries to the book budgets of ten libraries, how does this affect the per book costs (largely labor) of supplying those books?

In this model only the vendor's fixed costs are affected by economies of scale, things like rent, heat and light, administrative and marketing costs. But the large majority of costs, from sales to labor, all the people costs, increase roughly in proportion to the increase in revenue. Not exactly, of course, because there are always incremental revenue increases that absorb a certain amount of elasticity in labor. For instance, adding a second library on a university campus to a vendor's customer base produces small economies of scale. A sales

continued on page 77

The word "dictionarius" was used as early as the year 1225 for a list of Latin words. However, the word was not applied to anything identified as a dictionary until the 16th century, when a 1538 Latin-English work by Sir Thomas Eliot was originally called Dictionary, but later called Bibliotheca Eliotas.

Vendor-Library
from page 75

representative can visit both campus libraries in less time than visiting two libraries on two campuses. Another example of small economies of scale results from increasing business with an existing customer. Being able to place three more books in a shipping box spreads the cost of the box across twenty-one books instead of eighteen. If this seems like a minuscule number, imagine the effect on hundreds of boxes. After all, economies of scale mean just that: savings that result from fixed costs spreading over more units, lowering the per unit cost and therefore ultimately the per unit price. But this won't happen to any significant degree in a consortium. The individual campuses will still require a sales call. There will be more boxes, but except for a few libraries where more existing business results, there won't

"High volume with inadequate profit just means a quicker demise."

be more books in those boxes. Labor costs, which are such a large factor, do not change at all.

If this vendor gets the consortium-wide book contract, and assuming the five libraries that originally were customers for part of their purchasing now buy all their books from that vendor, there are some small economies of scale accruing to the vendor. Combine that with the fear factor, the threat of loss of existing business, and the consortium should see some small increase in discounts. But not much of an increase, because discounts are already at an all-time high and the economies of scale are not significant. But that does not mean that a vendor won't be swayed by fear or delusions of grandeur into making a big mistake. I am not talking about being stupid. I am talking about being afraid. International bankers, for instance, are not thought of as people who are dumb about money. Yet they continued to pour huge amounts of cash into some Asian economies, the same economies that talking heads on TV predicted were on the verge of collapsing. Each banker was afraid another would have an advantage if, despite all the evidence to the contrary, a miracle occurred and Indonesia suddenly became Switzerland. And so it may be in our business. In fact, so it has been.

Last year the universities in southern England put out a consortium bid for their

book purchases. The prize to the chosen vendor was about two million pounds sterling in book buying. The winning vendor bid 23% across the board, with 25% promised if purchases exceeded a certain level. I happened to be at a conference in the UK within days of this contract award, and the losing vendors were expressing both astonishment and sadness. Since each of the consortium members would be ordering

"Electronic journals and some other products seem to lend themselves to economies of scale."

separately, and would be shipped to separately, where were the economies of scale that justified a discount that was substantially higher than any others offered? The losing vendors were astonished that the winner thought they could stay in business with such a discount, and they were sad that experienced librarians accepted such a price as realistic. A few months ago the winning vendor, a formerly stable and profitable company, closed its doors forever. Another victim to fear, another believer in the flawed maxim, "We'll make it up in volume." High volume with inadequate profit just means a quicker demise.

In the next issue of ATG I'll discuss other aspects of consortia and vendors, with some suggestions on how vendors can bring real value to libraries in this environment.

Papa Lyman
from page 74

at #17, November 1997. We will be glad to furnish a copy of this story to non-subscribers to LOGOS. 2) *Forbes*, December 29, 1997, p. 58 runs a story by **William P. Barrett** titled "Mousetrapped." A few weeks ago Katina called me with the news that I would probably be called by *Forbes* for some discussion about the **H. W. Wilson Company**. Apparently Barrett had got wind of my June 1994 *ATG* story about **Halsey William Wilson** (v.6#4, p.62-63). No phone calls from *Forbes* but an officer of HWW Co. advised me to look for the December 29 issue. Breathlessly I charged off to the **Niagara Falls Library**, some six miles distant and, sure enough, I found the magazine and it took only a couple of seconds to learn why I did not hear from the publisher. My story was all pro Wilson; it would have been contributed to a *Festschrift* had there been one and had I been asked. (Here's a chance to amend my plug for the *Oxford Desk Dictionary* in *ATG* (v.9#6, Dec 1997/Jan.1998, p.82). How come *Festschrift* does not appear in it whereas *Merriam Webster's Collegiate* and *American Heritage* have even anglicized the word enough to have dropped the capital "F" "already!?) 3) Another periodical story — **Charleston Conference** alumnus **Richard Abel** started 1998 with a piece entitled, "Return of the Native in *American Libraries*, January, 1998 (v.20#1, p.76). Perhaps if enough of us decry the use of the word "outsource" whenever we think of hiring another person to mow our lawn or repair a blown auto radiator hose, we may rid ourselves of this inappropriate and pretentious-sounding word.

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