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Handling Medusa — Mergers in Publishing: Do They Matter?

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In the last issue, economist Mark McCabe of Georgia State University introduced portfolio theory research on the pricing of scholarly journals. Unravelling the serpentine convolutions of anti-trust economic analysis for non-economists, Prof. McCabe made a case for the development and use, in anti-trust inquiries, of an economic model specific to academic journals.

This would imply, of course, that agencies charged with the enforcement of anti-trust laws might want to look into publisher mergers when they appear to be coupled with journal price increases.

Publishing consultant John Cox is having none of it. He believes that publishers price journals individually. To find out why, read on. Medusa invites your responses to this pair of articles, and she promises not to stare at you while you speak. — LD

A small group of global players

For twenty years or so there has been a trend to consolidation in commercial scholarly publishing. This has coincided with the emergence of the serials crisis, which has given us so much to talk about at conferences. But the evidence that mergers have of themselves led to high price increases is pretty contrived, and ignores a host of other factors behind price increases. As a publisher, I would say that, wouldn't I?

Who bought what?

What is undeniable is that there is now a small group of global companies who have a seemingly insatiable appetite for growth. Look at recent history:

- Reed-Elsevier acquired Pergamon, MDL, BioMedNet, Chemweb, Adonis, Beilstein, JAI Press, Ablex, and Cell Press
- Bertelsmann has acquired Springer Verlag
- Wolters Kluwer has acquired Little Brown, Adis, Plenum, Lippincott, Raven Press, Waverley Press/Williams & Wilkins, Chapman & Hall and Ovid
- Harcourt acquired Mosby, Churchill Livingstone and Morgan Kaufman
- Wiley acquired Van Nostrand Reinhold, VCH and Chronimed
- Taylor & Francis celebrated 200 years of scientific publishing, became a public

company quoted on the **London Stock Exchange**, and acquired **Garland, Routledge** (including Carfax and E & F Spon) and **Europa**.

What were the motives? All companies seek to expand their activities. Growth is evidence of success, but these take-overs expose a whole range of motives:

- Reed-Elsevier bought Pergamon to give it a major presence in UK journal publishing.
- Reed-Elsevier and Wolters Kluwer see the Net as the way of the future, and have bought distribution mechanisms of their own
- Bertelsmann bought Springer in order to become a serious player in STM publishing. Its other STM publishing was too small to be significant, so it had to get out, or get in. It chose to get in.

Who chose to sell?

Buyers need sellers. There are many reasons for selling:

- Pearson has disposed of Churchill Livingstone as part of a strategy to reposition itself as a media company; medical publishing did not fit.
- Reed-Elsevier sold IPC Magazines and some of its book publishing because consumer publishing no longer suited its objectives.
- Thomson disposed of Routledge and Chapman & Hall because it decided to concentrate on legal and professional publishing.

There are still over 20,000 publishers of all sorts serving the academic and medical communities. Nevertheless, companies whose stock is traded publicly now take an increasing share of library acquisition budgets. Why is this happening?

Is this ordinary corporate behavior?

Mergers and acquisitions are not peculiar to our community. They are just part of the complex range of corporate behavior resulting in the survival of the fittest.

The first priority for all companies is to survive.

- They make profits to reinvest and to provide a return to their shareholders. Shareholders take a risk in investing in equities. In order to compensate, they expect a

higher return than from a savings account.

- Those that are quoted on the Stock Exchange are driven to do this by institutional shareholders that invest our pensions and mutual funds.

The second priority is to prosper and to grow.

- As individuals we compete with each other for more responsibility and more money. This is true in academia, in politics and every other walk of life.
- Companies are much the same; they are communities of individuals. They compete with each other by creating better products, by producing them more efficiently and selling more of them more profitably.

If companies are successful, we expand, by developing new products or entering new markets internally, or by buying something that takes us there. This process can be seen in retail, pharmaceuticals, energy and telecommunications, to take but a few examples.

Publishing is no different. Carfax grew its program from 120 journals in 1994 to 230 in 1998, mostly by acquiring individual titles from other publishers or learned societies. Even in the non-profit sector, societies strive to expand the range of services offered to their members. They develop their publishing. And they often depend on those programs to finance additional member services. Members look for value from their investment in membership subscriptions, as shareholders do.

Does size affect pricing?

The most immediate effect of a major acquisition is the quest for economies of scale and the elimination of duplicated functions. Taylor & Francis promised its investors that it and Routledge, a larger publisher, would save \$3.5 million per year in costs by combining their accounting, production, purchasing, administration and distribution and consequently reducing staff, and thus increasing its profit. T&F did it in four months. It is now the world's third largest journal publisher with 450 titles in publication. But there is no evidence that T&F's pricing policy will be affected. Indeed, that has resulted in below-average price increases for as long as anyone can remember.

Pricing policy varies from one publisher to another, regardless of size. In my years at Blackwell's, when we researched **Blackwell Periodicals Price Index**, it was remarkable how varied different publishers' approaches

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to pricing were, whether small or large, society or commercial. Much depended on the individual publisher's culture and background, or indeed on the views of the individual manager within the publishing house.

The annual pricing round in most publishing houses is a title-by-title, time consuming and detailed affair. Each title is examined for its subscription level, cancellation rate, financial performance, and its current price in relation to its rivals. Breaking certain price points, e.g. \$500 or \$1000, is given particular attention.

If the journal is successful, highly cited and dominant in its field, it receives particular attention, as frequency or pagination may need to be increased. After all, successful journals attract many high quality papers, and no publisher is going to allow those papers to go to a rival journal. Journals that grow in size are successful; the corollary is that they become more expensive.

How are big journal programs managed?

There is no such thing as a publisher who only publishes best sellers! Every journal program contains highly-cited successful titles, established titles, newly launched journals, and those that do not work. Most publishers like to concentrate on their subject strengths. The program is constantly under review, to take account of changes in research, changes in existing subjects, and the emergence of new disciplines.

Journals change hands every year. Some are closed or merged with others. What may not work for one publisher often fits another publisher's requirements, to the benefit of the journal itself. Every year, as part of the pricing round, problematic journals are identified for special attention. A change of editor, or more focused marketing, may be needed. Or the journal may simply no longer meet the objectives of the program or the publisher's financial criteria. It may then be sold or closed. This process is a continuing one in well man-

aged publishing houses, but comes under the spotlight in the aftermath of an acquisition.

Journals have life cycles. New journals, launched in response to the needs of an emerging discipline—cultural studies and gender studies are two examples—take up to five years before they begin to cover their ongoing costs, let alone recover the investment made in launching them. All journal programs have this element of internal cross-subsidy; this is only another way of saying that publishers re-invest in new products and services needed by the communities they serve.

Size and service quality

Size brings economies of scale. It also brings challenges in managing the service academic authors and editors demand from their publisher. Personalized services, carefully tailored to the requirements of the discipline and the needs of the editor and the editorial board, make for a successful journal. Publishers are in the service business too. As companies grow larger, that personal element can be so easily lost in the corporate quest for economies. This may be a challenge to large publishers, but it is an opportunity for smaller ones and, indeed, for new entrants into publishing.

The barriers to entry into publishing are low. There is always the chance of a new entrant carving out a position in the market. Publishing has always been a community of small creative companies, started by disgruntled ex-employees of larger, more impersonal organizations.

Size, global reach and the Internet

Scholarly publishing has always been a global activity. But with the advent of publishing on the Web and the growing importance of the portal as a gateway of choice, the large international companies have an even greater need to be Number One in their field. That is why Elsevier bought Chemweb and BioMedNet, and Wolters Kluwer bought Ovid. Publishing mergers have created the global players with the strength to do this.

price of the book without substantially adding to the story, but I would have loved to see a photograph of the hawks nesting in a skyscraper. The books does, thankfully, have an index, a valuable tool that so many books lack these days. Also included in the appendices are lists of butterflies, birds, and edible plants found in the Park (and when to find them), which are educational and inspirational in their own right. These have been compiled by some of the Regulars, which affords the volume a sense of community that seems fitting, given how communal the hawk-watching and hawk-caring turned out to be in Central Park. Now if only I could convince myself it would be entirely too self-indulgent to subscribe to the *Wall Street Journal* just to read more of Winn's nature writing.

In the world of the portal, customer service and feedback become vital. Publishers have to understand the context in which content is used. Context drives e-businesses to respond to customer needs with effective customized information systems and products that add value to the user's decisions and activities. As a result, they need to communicate directly with their users.

Recovering the investment made in all this activity is the great imponderable. New pricing and purchasing models are needed. Resource sharing has been developed into formal purchasing consortia in many countries. Publishers have begun to develop licensing schemes that provide extended access to their journals. While the big publishers tend to drive this sort of activity, the outcome does not depend on size but on imagination and flexibility in the face of market demand.

New ways of doing business

A variety of new pricing models will give librarians more choice than they have had in the past. As well as the traditional journal subscription model, they could include:

- Pre-payment for access at the article level
- Package pricing by discipline or sub-discipline—single publisher offerings, or aggregations of multi-publisher materials
- Transactional, or pay-by-the-drink, models similar to document delivery
- The database, or Pay-TV, model, where the subscription provides access to a core collection of titles, including back volumes, for a set period—usually a year—at the end of which access is denied unless the subscription is renewed
- Micro-pricing, in which a payment will become due every time the user accesses an item of information such as a diagram, table or paragraph. Access might be downloading, printing or simply viewing for more than a set period of time. The unit price per access will be low.

Mergers, market change and survival of the fittest

The case that mergers automatically and of themselves lead to increased prices does not stand up to scrutiny. Not all publishers—not even those that dominate scholarly publishing today—will survive. Those that do will be imaginative, able to translate creative marketing and pricing into an acceptable reality, and continue to produce high quality research information. They will have to tailor their products to the requirements of their readers. They may try to reach them directly and by-pass the library. It is going to be an interesting time.

John Cox is an international publishing consultant. He is a former Managing Director of journal publisher Carfax and of B H Blackwell, the subscription agent and library bookseller

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man life, and human life in New York, at that. The folks who weave into and out of this tale are noble individuals, people of integrity. They are uncelebrated people who know a great deal but are willing to share what they know, who make a real difference to wildlife in the Park, and who do what they do purely for the joy of it, never seeking the limelight, never seeking "credit." This revelation is as refreshing and unexpected as the hawks themselves.

There is simply nothing to wish different in the book, except that there could have been more of it, or, possibly, photographs to supplement the useful and attractive maps of the Park. This perhaps would have increased the