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The Economics of the Big Deal: The Bulls, the Bears and the Farm

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And since the number of vendors offering Big Deals is limited, these two or three dozens of outlets need to find ways to acquire content for “their” deal.

Why should this hunger for content now pose a problem to learned societies and smaller publishers? The step from a process of digitization to a state of digitality is characterized by a changing sales pattern. In the past commissioning content from a learned society and selling it was a synchronized process, with the subscription year of a specific journal being the genetic code of the business relation between the society, the publisher and the library. Today, societies still commission journal content for a period of three or five years to larger publishers. However, the model of passing this content on to libraries has changed. With their multi-year deals, libraries often make a commitment to buy content and in reverse expect content to be delivered for the term they paid for. If the publisher signs that deal in year two or three of the agreement they have with their society partner, they are selling something they effectively did not contract.

The problem is even worse when the large publisher converts his holding-based Big Deals into a database deal. These database deals cause a society journal’s pricing structure to be dismantled and the journal effectively loses its economic valuation. Imagine a case in which a society decides to publish independently and wants to pull its journals out of the Big Deal. Not only does the society have to deal with the organizational build-up of a sales force and technological capabilities needed to provide libraries with an adequate service level, but it also has to re-constitute pricing and discount structures that fit its own size and needs.

It is evident that societies and smaller publishers have to make their bets. But why should libraries care? So far, they have had a schizophrenic relationship with the Big Deal. While most libraries did not support the idea of buying scholarly content in large bundles, many of them did. While the reasons for subscribing to Big Deals are manifold — elimination of selection processes, more choice for researchers, better cost-benefit ratio — libraries continued to subscribe to journals from smaller publishers, certainly for quality reasons, but also to support alternative structures.

The TRANSFER Code of Conduct, in its latest version 3.0 from 2014, addresses a lot of the technical concerns around the transfer of journals from one publisher to another, and it does so by now in a manner that is adequate to digital products. However, the business side remains an open desideratum. There are already a few mechanisms in place that address the fact that publishers don’t sell journals as units any longer, but provide access to masses of content. Therefore, mechanisms are needed to assign the value inherent in a collection of content pieces (or alternative volume of usage) independently of all the meat of the Big Deal around it. By this means, customers could allow for journals to be pulled out of packages during the period of a contract to protect their interests. This mechanism would also ensure that publishers would not replace content essential to a library’s patrons with other, less relevant content, just to fulfill their volume commitments.

In turn, the standing practice in many licensing agreements between publishers and libraries is that publishers are almost forced to commit to the delivery of content, which they did not even secure contractually, for the term of their respective agreement with their customer. This might appear to be a negligible issue, but given the fact that there are also large

er packages with STM journals with up to 200 titles and several thousand articles that might move houses one day or another, it is sensible for librarians to take precautions.

As an interesting side-note, the lock-in effect is not only positive for those larger publishers that control major market segments. It is not just learned societies that find it structurally and increasingly difficult to move out of the Big Deal. It has also become really difficult for larger publishers to sell assets out of their portfolio that might not be in their strategic focus any longer, as their content is so tightly intertwined with the business models they support. And if one shares the view that in the advent of Open Access valuations of traditional journal assets will most likely not increase any further, this poses a risk to publishers as well.

All in all, the Big Deal has been a great business model for quite some time, but it requires on both sides — libraries’ as well as publishers’ — what its name implies: size. Large institutions in research and higher education may be served well by it, as are large publishers. After all, they invented it as a response to customer demand. However, the Big Deal’s prospects are doomed, as the budget situation in libraries is undergoing structural shifts and as publishers’ hosting technology is getting commoditized. Smaller publishers — not-for-profit as well as commercial ones — are well advised to evaluate their options and choose in time, whether they want to get rolled up in a database business or retain a certain level of control over their customers. What it takes is libraries that support plurality of models in the market by making appropriate purchase decisions. 🐻

The Economics of the Big Deal: The Bulls, the Bears and the Farm

by **Susann deVries** (Interim University Librarian and Department Head, Eastern Michigan University Library, 200F - Halle Library, 955 W. Circle Drive, Ypsilanti, MI 48197; Phone: 734-487-2475) <sdevries@emich.edu>

One of the fundamentals of economics is the study of supply and demand. There are different ways to approach this subject. **Adam Smith** outlined in *Wealth of Nations* (1776), the concept of a free market with lack of intervention and a laissez-faire approach to the economy. **John Maynard Keynes** in his book, *General Theory of Employment Interest and Money* (1936), pointed out that markets tend to react very slowly to changes in the

equilibrium (especially with price changes) and intervention is sometimes the best method to get the economy back on track. We seem to be in somewhat of a standstill with Big Deal journal packages. I would argue that libraries and the publishing world have been too focused on a free market approach and that we are quickly approaching a need to depart from the classical school of economics and swing our focus for a movement to a more Keynesian approach.

The pros and cons of acquiring serial publications via the Big Deal have been discussed in depth since they started to appear in the 90s; which is appropriate because changing from an a-la-carte approach to the bundling of subscriptions means there is a lot of money at stake. According to the *ACRL 2013 Academic Library Trends and Statistics*, academic libraries typically spend 68.7% of their materials budget on ongoing resources purchases, with doctoral degree granting institutions spending on average 74.3% (\$6,305,337) and comprehensive degree-granting institutions 75.4% (\$774,701). We’re talking billions of dollars, folks. Publication companies want to sell jour-

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nal packages and libraries are predisposed to subscribe, but the question remains whether the future will sustain willing buyers of Big Deal packages in a fiscally challenged environment. Something has got to give.

The Triple Bottom Line (TBL), coined by **John Elkington** in 1994, is an accounting basis that has gained significant attention in the business sector. Whereas the traditional, single bottom line only focused on profit, the TBL approach differs from profit-based or financial outlook to include social and ecological measures for assessment. I am proposing a slight twist to the TBL. All libraries have to take into account the financial consideration, but we also have to take into account our social obligation to our patrons' research needs, and we must develop a long-term sustainable approach to access when analyzing the pros and cons of purchasing any Big Deal. Multiple dimensions and perspectives have to be taken into account.

Big Deal journal packages were supposed to be a help to libraries, but in the long run it seems to be an unsustainable model lacking budget flexibility. The big question libraries are asking themselves is, how they can allocate increasingly shrinking fiscal resources to satisfy unlimited publication growth in academia? Can all parties come together and find a TBL where publishers, authors and libraries can make it financially feasible on all sides of the fence to support the furthering of intellectual thought and growth in a sustainable manner?

Limitations and Challenges

The library budget is similar to a one-year financial bond between the governing body of the institution and the library in a non-public exchange to maintain ongoing operations. The budget is fixed without a built-in contingency, nor a rainy day fund for emergencies. What libraries pay to vendors is apparently on a sliding scale and typically costs are perceived to be based on FTE and classification rank; but who exactly determines that cost? There is a lack of transparency on pricing of journal packages without enacting *The Freedom of Information Act (FOIA)*. We all want to know, what is considered to be reasonable? What other models could be explored? For example, at the end of a year, could a university qualify for a discount if they did not use a platform as heavily as had been expected for their Carnegie/FTE level? There ought to be more options.

On the flip side, the vendors expect a profit. I often hear from publishers the need for percentage cost increases due to the growing number of titles offered, rising costs to produce and so forth. While the norm of percentage increases used to be in the double digits 15 years ago, I am dismayed that vendors are consistently asking for numbers above the standard inflation rate, during a time when academia is in a fiscal chokehold. The demands for inflationary rates are crippling libraries and forcing institutions to critically look at: Options vs. Needs, Costs vs. Budget.

In order to keep prices down (or at least predictable), vendors offer different types of incentives to lock in sales for the short term. Making multi-year commitments to Big Deals in order to get a better price over time is scary. You hope for the best and that all will go well at the time the commitment is made, but in the back of your head you know the future situation is a bit scary and it could very well end in tears. Why is that? As mentioned earlier, most libraries work on a year-to-year budget. They cannot predict what future student enrollment will actually be, what state appropriations will look like (if a public institution), what the return on investments will provide and if budget cuts have to be made, whether or not they have to consider cutting staff lines in order to meet multi-year legal commitments with vendors. There are very serious consequences at stake if wrong decisions are made or unexpected dips in the economy force our hand.

Then there are the limitations of cost variation based on discipline. I have yet to comprehend the inflexible and exorbitant pricing of science and medical journals, which are often cost prohibitive to many institutions. Journals contain content that scholars and students want. Due to the nature of academic publishing, that exact same content (the results from a particular study or experiment) cannot be found in another journal. These mini-monopolies put power in the hands of publishers, as scholars need access to that particular content at exorbitant prices. It's kind of like the way that Netflix or HBO can control its subscription price. If you want to watch *House of Cards* or *Game of Thrones*, you have to subscribe and they set the price. While entertainment shows are a luxury and access to these shows are not considered to be a necessity, this is not the case with scholarly content. Access to scholarly content is the social right from which to base further research in order to stretch the boundaries of intellectual thought. This makes it very difficult for libraries to walk away from content, as most feel obliged to subscribe to the journals patrons demand.

The Bulls, the Bears and the Farm

The massive consolidation of commercial publishing and library technology consolidation is a significant development, limiting supply options. Last year **Rakuten** purchased **OverDrive**, **Bibliotheca** bought **3M Library Systems North America** and **ProQuest** acquired **Ex Libris**. To reference the traditional nursery rhyme, "so they all rolled over and one fell off." Now there are just a few in the bed, but I'm pretty sure not everyone is singing, "If You're Happy and You Know It." In the meanwhile, libraries are diligently singing "Row, Row, Row Your Boat" while competition is being eliminated. With the formation of monopolies, prices rise and the giants get to charge whatever they think the market will bear. Remember the golden rule of negotiating, he who has the gold, sets the rules.

Analysis of Holdings

With so much money at stake, both sides of the fence are producing data sets to aid with decision-making. The development and growth of e-resources management systems

(ERMs) to analyze Counting Online Usage of Networked Electronic Resources (COUNTER) via the Standardized Usage Statistics Harvesting Initiative (SUSHI) to pull in cost information from publishers to determine cost-per-download, all aid with analyzing the value of money spent and set acceptable thresholds from which to base seemingly sound decisions. People think if they can just do enough analysis and break everything down sufficiently, then they will make sound judgment calls. Numbers don't lie, right?

However, **Terry Bucknell** in his 2012 article "Garbage in, Gospel Out: Twelve Reasons Why Librarians Should Not Accept Cost-per-Download Figures at Face Value" in *The Serials Librarian*, makes a compelling case for challenging the reliability of the data which is collected as the numbers may or may not be comparable. It becomes complicated in a New York minute if you are willing to delve into great depth and detail. We all have to look at the data and determine if we are comparing oranges to oranges or apples to oranges.

While we would all like to take a logical approach, even Spock had to admit that the Vulcan approach was not always the best approach. Is strictly going by numbers the best way to go? Spock had to embrace his normative judgment side, or human element, to also consider information from all sides based on past experiences. What other factors come into play?

Is your library purchasing leasing rights to journals or are you also getting archival privileges with your Big Deal? Some may argue that if libraries are only getting annual subscriptions with just access rights, then it may be similar to leasing a car and prices should be lower. For example, with some science disciplines where the last five years are the most downloaded, then there is no residual value to access rights like a car would have after the lease is up. On the other hand, the social sciences and humanities depend greatly on long-term archival access, which is considered essential for scholarship.

A few libraries such as **Southern Illinois University** and the **University of Oregon** have left Big Deal packages and the rest of us are avidly watching their publications to see if they think they have made the correct call. More and more libraries are following suit as they feel the financial Vulcan death grip and have chosen to depend on interlibrary loan or on-demand article options such as **Copyright Clearance Center's Get It Now**. So the vicious circle continues. Libraries cancel subscriptions. Publishers see their subscriber numbers fall and to maintain or increase their revenues, they raise the subscription prices still higher. It seems that in the long run there needs to be cooperation for sustainability.

What will your library do after considering all sides of the financial, social and sustainable factors? How risk-averse is your institution? Are you going for a long-term strategy, or just a five-year outlook? In the decision making process you will have to ask yourself: are you a bull, a bear, a chicken or a pig?

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After the Big Deals Are Done

by **Jonathan Nabe** (Collection Development Librarian and Coordinator, OpenSIUC, 605 Agriculture Drive, Southern Illinois University Carbondale, MC 6632, Carbondale, IL 62901; Phone: 618-453-3237) <jnabe@lib.siu.edu>

Here is comfort for those on the verge of leaving Big Deals, solace for those who already have. Whether you arrived at this juncture by principle or lack of principal, the message is the same: the survival of the academy is not at stake.

Southern Illinois University Carbondale's Morris Library left three Big Deals over the course of 2009 and 2010. Yet faculty continue to conduct research, publish, and teach their students, who continue to write their theses and dissertations and get their degrees. Grants continue to be secured. People continue to come into the Library to use our resources. All evidence indicates that subscriptions to entire publisher portfolios are not essential to the functioning of a modern research university. Not that this serves as some kind of epiphany for higher education; **SIUC**, like every other higher education institution, functioned quite well for over a hundred years before the advent of the Big Deal — thrived, and even grew.

SIUC is a modern research university, in the *Doctoral University: Higher Research Activity* category, according to the 2016 Carnegie Classification. We are not in the top tier, we are in the second tier. This puts us in the same category with 106 other U.S. higher education institutions, including **Auburn, Dartmouth, Oklahoma State, the University of Rhode Island**, and the like.

Our participation in Big Deals foundered on the faulty premise underlying the model, which is predicated on the maintenance of a library's expenditure at the point of time in which it signs on to the agreement (its "historical spend"), plus an annual percentage increase. The faulty premise is that our budget would continue, at least on average, to increase enough to meet the Big Deals' increases. This did not happen, as it did not and still does not happen for many institutions — probably for the majority of the 106 *Highers* like us.

In practice, because the Deals' annual increases exceeded the increases in the Library's

budget, they were consuming an ever larger share of our budget. In 2004, we spent 24% of our budget on these Deals; by 2008, the figure had risen to 33%. This, in turn, meant less money for the universe of resources available for us to choose from — even while that universe is always expanding. There are two costs associated with this: the cutting of the Library's existing resources to compensate, and the opportunity cost of not adding new resources because the budget is squeezed and there is no additional funding available. Assessments of the value of Big Deals (discussed further below) that do not include these costs fail to present the whole story.

They also ignore the big picture — the impact of Big Deals on the scholarly publishing marketplace as a whole. The costs mentioned above also reverberate in the marketplace, since institutions locked into Big Deals are spending less elsewhere. Where do libraries go to find offsets for the increasing costs of the Big Deals? To those publishers and vendors who do not operate on that model, particularly academic and professional societies, university presses, and independent publishers. This has the effect of forcing these publishers, who are not driven by the search for profit and who charge lower subscription prices than do commercial publishers, to consider other arrangements for their publishing, all too often resulting in their consumption by the commercial publishers. There are diverse reasons for smaller publishers to pursue such a move, but one important consideration is the guaranteed subscription base (and hence income) provided by libraries' participation in Big Deals. We are indisputably contributing to market consolidation, which results in ever higher prices for all of us.

Leaving the Big Deals levels the playing field for all publishers and vendors in our collection development decisions. We decide, of course channeling the preferences of the University community, what we will buy or subscribe to, based on all those traditional and developing factors and metrics that librarians have at their disposal. This allows us to develop a true freedom collection.

Locally, then, an important outcome of leaving Big Deals is the increased flexibility and control over the collection gained, since less of the budget is tied up in arrangements that lock in an ever-increasing obligation. Unfortunately, in these times of scarcity, the flexibility we have achieved is measured out not in what new products we can add, but which existing resources we will cut. Nevertheless, the problem would be exacerbated if we had maintained our Deals — the estimate is that

we save annually between \$300,000 and \$400,000 (depending on what annual increase percentage is used) since our departure; that is the amount we would be paying *each and every year* to the three publishers above what we are paying now, if we had not left the Deals. The figure would of course increase

every year. To compensate for this difference, we would be forced to cut other resources, not because they are less valuable, but because they are not protected by similar agreements. To put it in perspective, this is about the amount we spend on books each year.

Greater flexibility is also achieved in the ability to adjust our current subscriptions from the Big Deal publishers, since we are not contractually bound to maintain our current spend. Optimal pricing is achieved on an annual basis if we do maintain our subscriptions, but we have

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A bull represents the attitude of an investor with an optimistic, "bullish" outlook. A bear looks at the market pessimistically and has a grumpy, "bearish" outlook. And then there is "the farm," or the chickens and the pigs. Chickens are characterized by investors who are afraid to take risks and tend to see a low return on their investment. Pigs on the other hand are the opposite of Chickens. These are

high-risk investors are looking for a big score in a short length of time. They tend to follow hot tips and invest without sound decision making. Often, the bulls and bears reap profits from pigs because of the latter's recklessness in investing. Thus the old stock market saying, "Bulls make money, bears make money, but pigs just get slaughtered."

Taking the TBL approach when considering Options vs. Needs and Costs vs. Budgets relies on: evaluating data, considering and setting value thresholds, balancing patrons' wants along with mission of the library and factoring

risk aversion in the current fiscal economy to arrive at sustainable decisions concerning Big Deal packages. There is no easy answer. As with investments, we all have to be diligent in watching the economy and assessing how the supply and demand will play out, for there are never any guarantees. You may be a bull or a bear, but always learn from the chickens and pigs. 🐷