Book Pricing: A Vendor's Perspective

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A wide variety of different pricing structures exist. Pricing systems vary because of the nature of the products or services provided and, in some cases, creative marketing strategies. For a pricing system to survive, it must serve the long-term requirements of both the buyer and the seller. The primary pricing structures used in the sale of monographs to the library market are variable pricing and flat-rate discounts. Cost Plus pricing has been revived and is under current evaluation.

Factors often incorporated into the above pricing structures include “free” freight, reduced freight, increased flat rate discounts, “free” telecommunications, “free” computer software or hardware. Probably, there will be other “free” features that haven’t been devised or marketed yet. In many cases, these factors are tied to negotiated volume commitments.

At best, these “free” variations further complicate evaluating all pricing structures. None of these items are free even though libraries and vendors commonly make this representation. The only way a vendor can pay for these items is by incorporating them into the price of biliable products and services. If all of a vendor’s customers are using these “free” services, it presents no problem. If not, the customers not utilizing or requiring these “free” services are sharing in paying the cost. As these “free” services proliferate, libraries will find they are paying the costs of what the collective library market requires rather than the cost of their individual library’s requirements.

Negotiated volume discounts on an undefined mix appear to be a creative marketing strategy. The mix is far more important in determining discount structure than the volume. Realistic volume discounts could only be made on an equitable basis if the mix could be quantified in advance and would remain constant. In actuality, it can seldom be measured in advance and varies considerably between and within similar sized libraries over time. (Keep in mind that unless your library’s mix statistically matches that of the vendor’s, your library is either subsidizing or being subsidized by other libraries.) Large volume commitments can limit the flexibility of a library in meeting its purchasing requirements.

Variable pricing is based on a combination of list price, publisher discount and the cost of doing business with a specific publisher. Publisher specific differences in payment terms, discount schedules, error rates, return policies, reporting procedures and responsiveness to a vendor’s requests can cause significant variations in vendor costs. Variable pricing protects a vendor from the mix. Each book can be priced on the basis of the vendor’s cost. A vendor doesn’t have to gamble that the mix from any individual account will generate a profit or that if an individual account isn’t profitable, that the average mix of all accounts will generate a profit. Each library pays for its own books. The discount or lack of discount a library receives depends on the mix. With variable pricing, a library can depend on paying for its own specific book needs and services.

Flat rate discounts offer a fixed percentage discount on every item regardless of the vendor’s cost. From a business perspective, this seems very risky as publisher discounts range from 0 to 55% and making a commitment to sell undetermined items of undetermined cost at predetermined discounts leaves profit to chance. The primary problem with flat rate discounts is that the vendor’s selling
price is not based on the vendor’s cost. Flat rate discounts can cause all of the following:

1. Make one library subsidize another library’s purchases;
2. Result in a vendor running as a non-profit organization;
3. Result in reducing fulfillment of unprofitable items;
4. Exclude some items from the guaranteed discount.

Cost Plus pricing provides pricing based on a percentage amount over the vendor’s product cost. The vendor is guaranteed a gross profit. For example, at cost plus 25%, an item costing the vendor $5.00 would be sold at $6.25 at a gross profit of $1.25; and for an item costing $75.00 sold at $93.75, the gross profit would be $18.75. In the first case, the gross profit will not cover a vendor’s cost; and in the second case, the profit is excessive. It is possible that it could average out over a large number of orders, but there is no guarantee. This method of pricing treats cost of the actual book as the vendor’s determining pricing factor. It does not take into consideration the vendor’s non-product costs or differences in a vendor’s non-product cost in handling titles from different publishers. Cost Plus pricing can cause all of the following:

1. Make one library subsidize another’s purchases;
2. Result in a vendor doing business as a non-profit organization;
3. Result in reduced fulfillment of unprofitable items.

The primary objection to flat rate discounts, Cost Plus pricing and negotiated volume discounts is that each allows the vendor no protection from the mix of orders. Under these pricing mechanisms, an unfavorable mix, whether by the library’s intent or a statistical accident, the vendor’s profit is left to chance.

The library community will have the final word on how books will be priced. In the long run, if it demands unrealistic or uneconomic pricing structures, the vendor community and the library community will both pay the price in the future. 🎨