

Watching your cards in The Big Deal



Ted Bergstrom ARL meeting,, Montreal,
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What do they cost?

- For some years, Preston McAfee and I have maintained a website that displays and compares institutional subscription prices per citation and per article for about 8000 journals.
- We find dramatic differences between the prices of journals owned by large commercial publishers and those owned by nonprofits
- It has been argued that these are misleading because they don't account for large discounts for package deals from big commercial publishers.

Bundle price project

- We and Paul Courant of Michigan library decided to collect prices paid by major universities for bundled contracts.
- Problems:
 - Confidentiality clauses.
 - Complex terms
- Response
 - State Freedom of Information Act Requests
 - Collect Entire Contracts
 - Cooperation and Encouragement from ARL

Hell's Grocery Store: A Fable for Librarians



Imagine a grocery store in a land of protected monopolies:

- The only seller of much-desired goods.
- Overpriced, but there's nowhere else to go for these items.
- Shoppers chose items they wanted and paid posted prices.
- Some bought many items, some bought few.
- All items sold at well above cost

How to sell more stuff at prices above cost: Grocer's Big Idea

- Double all prices, but top up everybody's cart with All the things they chose not to buy.
- Shoppers pay twice what they used to pay for the stuff they used to buy, but get full carts.
 - They could still buy items singly but they cost twice as much as before
- Shoppers who bought more stuff in the past pay more for the same amount of stuff as those who bought less

Shoppers complained!

- Grocer replied:

“You have nothing to complain about. Now you get a cart full of groceries every week. Some of you used to get only half a cartful or less. You pay twice the price, but you are getting more than twice as many groceries. We have cut prices, not raised them.”

Shoppers worried

- How much of a discount am I getting, when my shopping cart is topped up with things I didn't choose to buy at regular price?

Sound familiar?

- Commercial publishers pulled off this trick. Only a little more gradually. Price increases of about 7% per year after Big Deal initiated. Doubles prices in a decade.

Big Deal Discounts

- Elsevier's Freedom package includes almost all of their journals.
- Purchased one-by-one, 2009 total cost is about \$3.1 million
- Example: U of Michigan paid \$2.2 million for its Freedom Package
- That's a 30% discount, right?

Not Exactly

- If Michigan had spent its \$2.2 million with Elsevier on single subscription journals, it could have obtained journals that get 91% of all the citations to Elsevier journals.
- So, for Michigan, the Big Deal Price is really only a 9% discount from list

Elsevier Freedom Package Big Deals 2009

	2009 Payment	Apparent Discount	Actual Discount
Illinois	\$2,300,000	25%	6%
Michigan	\$2,165,000	30%	9%
Maryland	\$1,760,000	43%	15%
Wisconsin	1,215,000	61%	28%
Iowa	\$1,421,000	54%	22%
Idaho	\$751,000	76%	44%
Wyoming	\$497,000	84%	54%

So, how good are these deals?

- Let us compare 2009 prices paid by large research universities per ISI citation and per article.
 - Elsevier's Freedom package
 - Packages offered by major professional societies.

Bundle Prices Charged to Large Research Universities

Bundle	Per cite	Per article
Elsevier (U Mich)	\$3.60	\$15.16
Am Biochem Soc	\$0.20	\$0.95
Am Physical Soc	\$0.45	\$1.10
Am Soc Microbiology	\$0.45	\$1.20
Oxford U Press (Colorado)	\$0.55	\$2.15
Am Chemical Soc (U Mich)	\$0.65	\$2.85
Am Geophysical U	\$0.90	\$2.65
IEEE	\$1.05	\$2.25
Am Medical Assoc	\$1.05	\$5.90

Ratio of Bundle Prices: Elsevier to Societies

Bundle	Per cite	Per article
Am Soc Biochem	18/1	15/1
Am Physiological Soc	10/1	10/1
Am Physical Soc	8/1	13/1
Am Soc Microbiology	8/1	12/1
Oxford U Press (Colorado)	6.5/1	6.5/1
Am Chemical Soc (U Mich)	5.5/1	5/1
Am Geophysical U	4/1	5/1
IEEE	3.5/1	6/1
Am Medical Assoc	3.5/1	6/1

Bargaining in Hell's Grocery

- Commercial publishers maintain the fiction that contract prices are rigidly tied to current prices of the stuff that was in your cart when the Big Deal began.
- Some libraries seem to believe this.
- Evidence suggests wide variation.

Variation in Elsevier Contracts

University	Enrollment	2009 Price
Texas	47,000	\$1,500,000
Georgia	33,000	\$1,800,000
Michigan	39,500	\$2,200,000
Wisconsin	35,000	\$1,200,000
Colorado	28,000	\$1,700,000
Kentucky	23,000	\$1,300,000
Cal (scaled)	27,000	\$1,100,000

So, what to do?

- Consider dropping overpriced Big Deals
- Go a la carte with best deals from big publishers

Works for Stanford and for Cal Tech

- Alternatively, bargain hard on big deals, keeping a la carte option in mind.

Maintain site licenses only for publishers that price close to average cost.

That's all for now



Librarians' Shopping Problems

Problem 2: *Unreliable signals* Faculty arguments for purchases are fervid, but not always entirely credible.



Problem 3) *Complexity*

The major publishers have contrived to offer all-or-nothing deals of mind-boggling complexity.

Elsevier packages more than 2,000 journals.

Springer 1,900. Wiley 1400

Packages contain journals in more than 100 distinct disciplines. Who can say what the package is worth?

Examples

- Prescription drug industry, monopoly sustained by patents, delegated purchases, complex evaluation.
- College textbooks. Consolidation to three major publishers, delegated purchases, inelastic demand. (College degree offers huge consumer surplus. Publishers grab a bit.)
- California electrical power. The state agreed to guarantee a price ceiling on electricity. The state would buy electricity at whatever it cost and sell to Californians at a price no higher than the ceiling.

Enter ENRON.



Problem 4) *Monopoly*

Probs 1-3, *delegation, unreliable signalling, and complexity* lead to price inelastic demand.

Markets with price inelastic demand are a monopolists' paradise.



What happens when 5-year Big Deal contract expires?

- Faculty addicted to online access.
- Must negotiate new contract.

