

Update on Scholarly Publisher Profits

by Kaylyn Hipps, Assistant Editor of ARL

Brendan J. Wyly's article in the October 1998 issue of *ARL* (no. 200), "Competition in Scholarly Publishing? What Publisher Profits Reveal," demonstrated that several large, publicly traded scholarly publishers enjoy profits that are well above average for the periodical publishing industry as a whole (see <http://www.arl.org/newsltr/200/wyly.html>). The text and tables presented here update the sales, income, and stock equity figures as well as the profit ratios for the companies discussed by Wyly. In the latest fiscal year reported (FY98), each of these publishers experienced a net margin and return on equity above the median for the periodical publishing industry, with two publishers realizing net margins near or in the upper quartile for the industry.

As in last year's study, the publicly traded scholarly publishers analyzed are Wolters Kluwer, Reed Elsevier, and John Wiley & Sons.¹ Two nonpublishers—Thomson and Microsoft—are included as before for comparison. Thomson is a vendor of information resources to research libraries and Microsoft is included as a highly profitable firm in a monopolistic market. [Table 1](#) presents FY98 figures on sales, income, and stock equity for these five companies, primarily to demonstrate their relative size. [Table 2](#) provides FY98 profit ratios—measures used to gauge a company's profitability—for the five companies as well as the periodical publishing industry as a whole. Profit ratios for the automotive and banking segments of the Standard & Poor's (S&P) 500 are included as well because these were the most profitable sectors in 1998, as measured by net margin and return on equity, respectively.²

Although neither Wolters Kluwer nor Reed Elsevier saw significant changes in their operating or net margins from 1997 to 1998, their net margins remained high—11.3% and 17.9% respectively—compared to the periodical publishing industry median of 4.6%. While Wolters Kluwer's return on equity fell by 10% (from 41.7% to 37.5%), Reed Elsevier's rose by nearly 20% (from 28.2% to 33.7%), and both companies' return on equity remained well above the industry median of 19.3%. In 1998, John Wiley & Sons enjoyed a considerable increase in profits from 1997: each of the three profit ratios analyzed here rose by close to 20% or more. Wiley's operating margin rose by almost 20% (from 8.1% to 9.7%), net margin rose by more than 23% (from 4.7% to 5.8%), and return on equity rose by 21% (from 17.2% to 20.8%). This significant increase in profitability is especially remarkable given the modest changes in net margin and return on equity for the industry as a whole over the same year.

The particularly profitable area of scientific, technical, and medical (STM) publishing accounts for a substantial portion of these three companies' profits. In FY98, scientific and medical publishing comprised 18% of Wolters Kluwer's total sales. The sales for this segment of the company rose by 46.4% from the previous year, largely due to the acquisition of the Thomson Science titles, Plenum, and Waverly. In fact, the former two acquisitions doubled the size of Kluwer Academic Publishers. Similarly, scientific publishing constituted 20% of total sales in FY98 for Reed Elsevier. Elsevier Science experienced a 12% increase in sales from the previous year, half of which was due to acquisitions. Furthermore, the operating margin for the scientific segment of Reed Elsevier was 35.9% in FY98, over 10 percentage points higher than that of the company as a whole. In FY98, STM publishing generated 48% of John Wiley & Sons' revenues. They, too, acquired several new STM journals in FY98, but detailed figures on the company's STM segment are not provided in their annual report.

Wyly argues that the impressive profits of large commercial publishers are a sign of a dysfunctional, noncompetitive marketplace, and that the current system of scholarly communication needs to be replaced with a more innovative one built on authors' and readers' shared interests in broad dissemination. One year later, this snapshot analysis of the profits of selected large publishers of

scholarly journals clearly shows that they continue to be among the most profitable companies in the periodical publishing industry. The need to transform the system of scholarly communication remains as great as ever.

Endnotes

1. Plenum Publishing is not included in the updated tables because it was acquired by Wolters Kluwer in 1998.
 2. "There is no single ideal measure of profitability," wrote Wyly in his [October 1998 article for ARL](#). His article goes on to provide a concise review of how different profit ratios—such as operating margin, net margin, and return on equity—help to assess the health and profitability of any company.
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