The Value of the Subscription Agent in the Changing Financial Model

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The subscription agents' experience of the changing financial models which are affecting the scholarly communication community, particularly site licensing and consortia purchasing.

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The traditional financial model for agents

Subscription agents are businesses. Like all businesses, they are seeking to add value to their enterprise to benefit shareholders and other stakeholders in the business. What are the business assumptions or pre-requisites for making this market sufficiently attractive?

Volume

First there need to be many potential customers, many publishers or suppliers in the marketplace and a high volume of transactions per customer because this business is all about getting a small return from high volume.

Agents are unlike both their institutional customers and their suppliers. In financial terms libraries are cost centres responsible for supporting the research information needs for *a particular community* of researchers. Publishers are essentially businesses. Some are seeking profits. Others are seeking surpluses. All seek a return on investment by the exploitation of *particular copyrights* to benefit their shareholders or stakeholders. Subscription agents are service businesses dependent on satisfying a wide variety of customers and suppliers through delivering procurement and after sales services.

Customers

For agents to be successful customers need to value simplified procurement, i.e. customers need to believe that their operating costs, particularly labour costs and financial transaction costs, are reduced as a consequence of outsourcing labour intensive aspects of procurement.

Suppliers

Publishers need to value the simplified order handling and consolidated payment facility offered by agents and recognise the cost savings achieved by, in effect, 'outsourcing' library focused customer service to agents.

Scaleable service proposition

Another business assumption is that economies of scale can be achieved within a relatively stable trading cycle. Regular, cyclical renewals have traditionally provided trading stability. Methods of delivery for subscription products has also been fairly well established for the past two decades: delivery was either shipped directly from the publisher's fulfilment house or consolidated on behalf of the library by the agent in exchange for an additional service charge.

Table 1 shows the basic financial model. The subscription agent handles many publications with many price and currency variations, adds a very small service charge, repays the suppliers the cost of the publications leaving a gross margin from which is deducted operating costs to leave a modest operating profit.

Table 1. The traditional subscription agent's financial model

Price of many journals	££££££
Plus service charge	£
Less cost of sales	(£££££)
Leaves 'gross margin'	£££
Less operating expenses	(£)
Equals operating profit	££
Less investment	(£)
Equals profit	£

The effects of site-licensing on agents

The move from annual, paper-based, purchased subscriptions to multi-year renewable site licenses has affected agents in a number of ways. First, bundled packages sold direct from publishers have lowered the volume of transactions, and have the potential for lowering them even further. Second, the sales process, including selection and restrictions on access, have led to greater complexity of negotiations. Third, as agents often have the closest vendor relationship with an institution, they have been brought into the negotiating process which requires the agent to have licensing expertise – not an attribute of the traditional service agent. Fourth, agents are increasingly assuming the role of distributor for publishers, especially database publishers , where additional marketing and sales activity is undertaken, sometimes on an exclusive basis by geography or market sector. Fifth, while assuming the new responsibility and complexity of electronic publications, agents have continued to support the costs of servicing print publications from a declining discount base and a declining product mix, i.e. consortia cherry picking high value publications from their list. Sixth, agents are required to adapt to a wide variety of pricing models, often experimental, which publishers are testing in the marketplace. Seventh, the customers and suppliers have different service requirements. Finally, all of these changes have increased the agent's operating costs and increased the costs of new investment in people, systems and services.

The effects of purchasing consortia on agents

Consortia have created a new type of customer for publishers to target. Publishers have drawn from their experience with authors/editors and the profitable experience of the software industry to propose a more specific contractual framework for transacting electronic sales, i.e. that of licensing.

Superficially there appear to be fewer customers to deal with when negotiating with a consortium. However, as all those involved with purchasing consortia know, the specific requirements for each member of the consortium can differ significantly, and servicing those requirements is not necessarily a scaleable, uniform service proposition.

A consortium might look as though there are fewer transactions to process, but this will vary depending on the publisher's package and the customer's requirements.

Customers can be unsure of the value of simplified procurement to the consortia as the benefits are often felt at the local member institution level. Direct deals can adversely impact member institutions with a greater procurement overhead to support.

Some publishers have used licenses to ring fence products which allows them to use only direct selling, thus reducing the agent's discount. This may work in their favour with highly organised consortia with significant central operations and a clear remit, but may preclude them selling effectively to institutions who chose not to participate in consortia or to loosely configured purchasing groups.

Agents are also adversely affected because publishers are unsure of the value of simplified order handling, billing and settlement in multiple currencies and aftersales customer service. These costs are often wrapped up in the operating overhead for the publisher while the agent's discount can appear as a negative charge to the journal title, suppressing its financial performance.

The effects of purchasing consortia have been quite profound upon the market, with whole geographic areas changing characteristics as a result of consortia activity. They have the potential for fundamentally changing the market dynamics, and have begun to do so.

In addition to having a variety of constituent members, consortia themselves can vary quite significantly. Some join together as purchasing groups extended to include journals purchasing or materials procurement. Others are born of institutions with a common funding source, or with common collections or complimentary resources, where resource sharing has been long established. Some are more consortia of convenience. Multinational organisations are certainly a type of consortia but these organisations differ substantially from the publicly funded institutions.

Consortia requirements vary but all seek three common goals:

1. Lower prices, or discounts for information products;
2. lost cost procurement and aftersale services; and
3. simplification of legal negotiations.

Causes of tensions between trading partners

There are at least six areas of tension that have arisen between trading partners.

This first area of tension is caused by the emergence of government funded intermediaries to challenge free market competition. Institutions such as OhioLink or NESLI are, in effect, government-funded service intermediaries which have the potential to become a single source of procurement for their constituent institutions. The danger in the medium to long term is that competition on service provision is eliminated as whole markets are nationalised.

The second area of tension is the fact that electronic negotiation and subscription handling has increased labour costs in all trading partners, and increased labour costs inevitably result in prices being pushed up.

The third area of tension has developed over the past three years as a number of publishers have opted to bypass agents through direct deals and packages to institutions with incentives to bundle print and electronic publication acquisition together. Deals such as Elsevier's ScienceDirect, IDEAL from Academic Press, and services from many of the societies are examples of direct selling. There are, however, some recent initiatives, such as 'Open Consortium' offers, which are moving in the right direction.

The fourth area of tension arises from the fact that customers are confused by the complexity of licensing, bundled acquisition, and access restrictions controlled by password administration.

The fifth area of tension is due to the lack of understanding of the agent's cost reducing role and its value, its financial value, to the institution and publisher/supplier. As a service provider we do not have tangible products only service deliverables and the results of our service performance.

The sixth and final tension is that of the less than predictable delivery of e-journals. Publishers' expectations regarding publication release dates and institutions'/users' expectations of release or publication dates can frequently be at odds. Electronic journals experiencing copy flow problems or electronic production problems may be released up to six weeks later than officially predicted publication date. Agreeing acceptable delivery terms and service level agreements requires further attention for all trading partners.

Possible solutions to the tensions

The first step towards solving the emerging tension between trading partners is the rationalisation and recognition of each partner's role by all involved. The agent's role is often misunderstood.

There is a strong case for advocating more 'open book' trading relationships similar to those implemented in other industries, like the software industry and just-in time manufacturing.

Publishers need to recognise that their overheads can be reduced by agents taking a proactive role in institutional procurement management and aftersales service.

Publishers and customers need to recognise the value agents provide of simplified customer service.

Government intervention in service provision could have a devastating effect on the industry. It is necessary to restore free market competition or the marketplace can expect businesses to retreat from offering service to this industry.

The hybrid agent

Increasingly the agent is managing the challenge of handling both electronic publications AND print publications . This is already a reality. What is taking shape is a 'Hybrid Agent'. The Hybrid Agent offers new service propositions in answer to this challenge by, for example, offering new tools and support for electronic journals acquisition. A combination of print and electronic publication demand is likely to continue into the next several years.

If large publishers are encouraged to continue to bypass agents, then customers will have to recognise that the price of service will increase on the remaining material supplied by agents.

Publishers need to recognise that they could save on their cost of sales by involving agents in license negotiations, billing and settlement and aftersales service. Academic Press's IDEAL Open Consortium initiative to agents is an excellent example of a publisher moving in this direction.

It is also important for all trading partners to recognise that competition reduces prices. That applies to the prices of publication and the price of procurement and aftersales service. Monopolistic practices can be either introduced through bigger and bigger businesses controlling availability through aggressive pricing of scholarly information or through bigger and bigger purchasing groups compromising customer choice.

From value chains to value networks

In conclusion it is important to put the changing financial models and their impact in our industry into context. Publishers, libraries and agents have been operating in a fairly stable, steadily growing market for the past 50 years. This stability is being challenged by new financial models like many other business sectors today. The traditional value chain for institutional subscriptions from author to publisher, to agent, to library/institution, to reader, is breaking down, as digital scholarly communication and electronic business becomes a reality. As Don Tapscott wrote in *The Digital Economy*[1] back in 1996:

> "The value *chain* between individuals and organisations is becoming a digitally based *value network* as people and enterprises reach out through technology to customers, suppliers, affinity groups, and even competitors."

This trend towards a digital economy has now encompassed our industry. Publishers, institutions and agents need to work together, not in isolation, to exploit our emerging value network.

Reference

1. Tapscott, Don; *The Digital Economy: Promise and Peril in the Age of Networked Intelligence;* McGraw-Hill, 1996. pp86-87