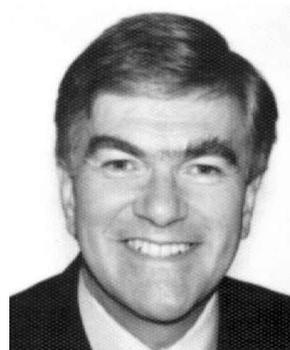


Vendors: extinction or reincarnation?

Based on a paper given at the 26th UKSG Conference, Edinburgh, April 2003

The advent of online journal publishing and the formation of library purchasing consortia have transformed the supply chain from author, via publisher and library, to reader. Caught in the middle is the subscription agent. This presentation examines what is required of today's vendor, and how the subscription agent's traditional transaction processing and customer support activities have to change to meet the needs of the new environment. It reviews the process of concentration of subscription services into fewer hands and the emergence of new intermediaries. It considers the strengths and weaknesses of the subscription agent, and the threat to an orderly supply chain that potentially puts small publishers at a disadvantage.



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I notice that my friend Paul Harwood of Swets Blackwell has pre-empted my remarks by getting his retaliation in first in the last issue of *Serials*¹. This is what I shall refer to as his Rumsfeld strategy. The problem with a rapidly changing environment, as both Paul and Donald will acknowledge, was best put by that talented wordsmith himself:

"The message is that there are known knowns.

There are things we know that we know. There are known unknowns; that is to say, there are things that we now know we don't know. But there are also unknown unknowns. There are things that we do not know we don't know. And each year we discover a few more of those unknown unknowns."

The problem is that none of us know how much or how little we don't know, so I am going to launch with a little speculation based on my knowledge of libraries, publishers and vendors in this country and around the world. And I am going to look at the information supply chain more from the publisher's perspective than the library's, as I know that Rick Anderson will provide an excellent counterweight.

Transformation of the supply chain

In the print world, both booksellers and subscription agents perform an invaluable role in the supply chain from publisher to library:

They are very good at processing transactions,

compiling and providing product and holdings management information for their customers.

They cater for the very varied administrative and financial requirements of their library customers. If you asked a publisher about fund accounting, or the need for invoices to be set out in a particular format, he would not know what you were talking about. But a subscription agent would!

They play a vital financial role, both in covering the gap between paying the publisher and being paid by the library, and in managing foreign exchange so that the library pays in its local currency, with the publisher receiving payment in its currency of choice.

In short, they have provided an orderly environment for supplying thousands of libraries with a one-stop shop for thousands of journals published by thousands of publishers worldwide. They have assumed a function that saves considerable administrative costs in libraries and in publishing houses.

However, both the advent of online publishing in the mid 1990s and the formation of library consortia pooling their members' materials budgets in order to increase their clout have led to a transformation of the journal supply chain. It is no longer clear to me that the traditional subscription agent occupies such a key position between publishers and libraries.

So what has changed?

The fragile economics of the subscription agent

Being a subscription agent has always depended on wafer-thin operating margins. When I ran Blackwell's subscription business in the early 1990s, our gross margin – the difference between what we received from libraries and what we paid to publishers – was 8.5 per cent: roughly 2.5 per cent from libraries in the form of a service charge, and 6 per cent from publisher discounts. Since I went back to publishing, publisher discounts have eroded, and library service charges have, as Paul said in his article, virtually disappeared. If libraries feel that they do not have to pay something for the services they receive from subscription agents, then they will eventually get the service they pay for!

Subscription agents have been their own worst enemies in this. They have continued to provide technology services to libraries at no cost, and they have competed with each other on price, eroding their gross margins to levels below survival. Buying business is the shortcut to bankruptcy. That is what happened at Blackwell, and why it is now part of Swets.

Why have subscription agents been so slow to respond?

My belief is that subscription agents have found it very difficult to make the change from being a library-focused procurement agent to that of a transaction and service partner in the online environment. Paul's article in *Serials* highlights the dilemma faced by intermediaries like subscription agents, with a legacy of business practices from the print environment.

The example of the collapse of Encyclopaedia Britannica should haunt us. Britannica had 200 years of tradition and the best encyclopaedia brand in the English language. But it had a huge cost structure, it neglected the electronic media and was overtaken by \$50 cd-rom competitors and had to be revamped under new ownership. It does not matter what worked well in the print environment. What counts is how vendors adapt to the new environment.

My own personal experience at Carfax, where we helped found CatchWord, and made our first online journals available in 1995, was that the

subscription agents did not know how to position themselves to help us market bright new technology, even when we asked for help. And we wanted to work with our established trading partners. Only now – seven or eight years later – have the major subscription agents put themselves in a position to be a positive help to publishers.

The position has been made more difficult for them by some of the larger publishers wishing to deal directly with libraries over online journals. Publishers wanted to understand this new market, which meant that they had to engage directly with libraries, rather than mediating contact through a third party. Indeed, many library consortia want to deal direct as well. Negotiations are better handled face-to-face rather than through third parties. The provision of online journals raises performance, compatibility, technical support and customer service issues that simply do not apply in the print world. These issues arise in implementing an online journal licence and are best dealt with directly, rather than via a third party. The view in the early days was that the organ grinder was a better contact than the monkey. And the die was cast in those early days.

The problem for subscription agents is that those early direct deals usually involved large publishers, whose journals were relatively expensive, relatively easy to process and who gave a reasonable level of discount. The loss of such traffic leaves the agent with a journal mix of less expensive – so the discount would be less valuable – journals that are more difficult and time-consuming (i.e. expensive) to process and service. The economics look even more difficult.

The impact on subscription agents: the process of concentration

So what has happened? The evidence is all around us. Swets Blackwell and EBSCO dominate the industry. The big five (Blackwell, Dawson, EBSCO, Faxon, and Swets) have become the big two, all within eight years. Many smaller agencies have disappeared into the Swets and EBSCO families. This process of concentration is evidence of a stressed environment. The same has happened in publishing, as the commercial publishing sector has found itself in fewer, larger hands.

Of course, size does matter when heavy investment in new technology and new skills is

required. The economics do matter. But this concentration has occurred in part because some organisations in this business took their eyes off the core business. Do not underestimate the role of sheer incompetence. And recognise that the remaining companies are well managed and very capable – not just Swets and EBSCO, but medium-sized specialists like Harrassowitz and Casalini.

What does the intermediary have to provide in the online environment?

Publishers are looking for assistance in marketing their new electronic products to the library market. It is interesting to observe that both Swets (with Extenza) and EBSCO (with MetaPress and other new services) recognise this and are looking for business that complements the existing subscription business and generates revenues that are not wholly dependent on the traditional, passive, transaction processing activity. Some examples that will excite publishers as well as meeting library needs involve actively bringing customers to publishers:

Creating ad hoc virtual consortia for packages of journals. Both Swets and EBSCO have been very accomplished in assembling groups of libraries for particular publishers' offerings. Examples include Academic Press and extensions or renewals of NESLI licences in the absence of any activity from JISC.

Providing procurement services for consortia. For example, Swets provides HEAL-Link, the Greek consortium, with licence negotiation, payment and invoicing services.

Exploiting their rapidly developing gateway facilities to drive traffic to publishers' sites.

Other activities could involve providing publishers with services that they otherwise have to invent for themselves, for instance, the creation of a subset of their transaction processing facilities – the fund accounting and invoicing and financial reports and interfaces to library systems that they require. But the difference lies in providing the facility to publishers so that the publisher can meet library or consortium requirements.

The key lies in sales and marketing activities on behalf of the publisher. That is a difficult organisational and cultural issue for a business that really provides procurement and transaction processing services – essentially a passive activity

in the context of creating sales. Moreover, subscription agents have traditionally occupied an independent role within the supply chain. Their sales staff concentrate on selling their services to libraries, rather than selling a particular publisher's products. That reputation for being above the fray is important.

The emergence of new intermediaries

There is still an important role for intermediaries. But it is not the same role in the electronic environment. The traditional vendors are tied to the baggage of their history in a way that new entrants into the online market are not. Let me give you five examples of organisations that are exploiting the new opportunities:

In the USA, PCG, part of Ingenta, is offering publishers a service called ConsortiaLINK, which packages the journals from a range of publishers hosted by Ingenta and negotiates the licensing of the package to consortia.

In Scandinavia, BTJ, the Swedish subscription agency, has established a subsidiary, PrioInfo. PrioInfo represents a range of publishers with electronic products (Gale, OECD, CSA, Knovel etc). Their publishers include aggregators, database publishers and e-books. They have been successful in initiating consortia sales – both to existing national academic consortia in Scandinavia and by initiating pan-Scandinavian Consortia – and to corporate markets. What is notable is that they are not hung up over our traditional print oriented categorisation of books, journals, reference works etc. Online, it is all content!

In China, Charlesworth, the journal printer and publisher from Huddersfield has had success in licensing online journals to Chinese libraries, and offers such a service on a commission basis through its Beijing-based subsidiary, Beijing Charlesworth Software Development Co Ltd. As China has acceded to the WTO, it is now observing copyright and is a fast-growing market.

In South East Asia, the iGroup is a group of companies in the information industry across Asia-Pacific. The iGroup is already the largest provider of information services, with a wide range of client publishers including ACM, CABI Publishing, IEEE, Emerald and OECD. It

operates through a network of regional offices in Australia, China, Hong Kong, India, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

In India, Informatics acts as a sales/procurement agent for Indian consortia, notably the Indian University Grants Commission INFLIBNET consortium.

These new intermediaries seized opportunities while many traditional vendors were sitting on their hands and worrying.

The position of small publishers

There are still opportunities for the established vendors. Small publishers badly need their help. The range and extent of 'Big Deals' effected by major publishers such as Elsevier, Kluwer, Springer, Wiley, ACS, Blackwell etc. has put at risk smaller journal publishers by potentially excluding them from consortia purchases. This particularly threatens society publishers with only a handful of titles (albeit key titles in their respective disciplines). The possible marginalisation of such smaller publishers is a concern shared not only by the publishers themselves but also by academic libraries worried about the sustainability of important titles that represent value-for-money.

It would be unfair to criticise subscription agents for failing to create their own 'packages' of publishers. Many of these publishers are fearful of the future, and are highly averse to risk. They all have different ideas about how to survive and prosper in the future. Getting them all to agree to pool their differences, and their competitive instincts, is a huge task. It's a bit like herding goldfish. But many small publishers are now prepared to explore how to work together to create journal packages that are effectively a co-operative 'Big Deal'.

ALPSP has taken an initiative to create a coalition of its member publishers. After a process of consultation with its members, it has secured a commitment in principle in respect of some 100 journal titles to create a coalition of the publishers concerned. The intent is to offer a 'collection' of

these journals to library consortia internationally. Of the 100 titles, one third are in medicine/healthcare, one third in science and technology and one third in humanities, social sciences and business.

Where does this leave the subscription agent?

As I have said, there are plenty of opportunities for vendors in the new world. There is an abundant need for an orderly and straightforward trading and delivery environment that subscription agents provided so well in the printed world. But many subscription agents have already disappeared, and new vendors have merged.

Subscription agents bring great strengths to the online journal world. They have established relationships with libraries, and are generally trusted by both libraries and publishers. But they have weaknesses. They are burdened by the print legacy, and are seen to 'get in the way' by some publishers and some consortia. Publishers seek a more pro-active partner in the online world, and see alternatives to the subscription agent. The well run companies will survive. The weak will fail or be gobbled up by others. What we are seeing is an adventure in capitalism.

So let me leave you with another thought from the Washington prose-poet Donald Rumsfeld:

*"Don't necessarily avoid sharp edges.
Occasionally they are necessary to leadership".*

References

1. Harwood, P., Courting controversy: views of a not-so-secret agent, *Serials*, Vol.16, no.1, pp 97-98, 2003

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