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## Simultaneous Users vs. FTE Pricing Model -- Stairway to Heaven or Jail House Blues?

Mark Funk

*Cornell University*, [mefunk@mail.med.cornell.edu](mailto:mefunk@mail.med.cornell.edu)

Barbara Schader

*UCLA Biomedical Library*, [bschader@library.ucla.edu](mailto:bschader@library.ucla.edu)

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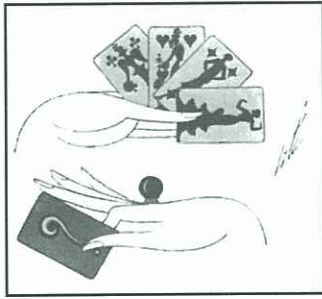
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# Simultaneous Users vs. FTE Pricing Model — Stairway to Heaven or Jail House Blues?

by **Mark Funk** <mefunk@mail.med.cornell.edu> and **Barbara Schader** (Head, Collection Development, UCLA Biomedical Library, 10833 LeConte Avenue, Los Angeles, CA 90095-1798; Phone: 310-825-6498; Fax: 310-825-0465) <bschader@library.ucla.edu>

## Background

The impetus to write this article came about for two reasons. One of the authors attended the **2002 Charleston Conference** and was struck by the many pricing discussions that never even mentioned the “simultaneous user” or “concurrent user” model. In fact, many of the discussions assumed that the “FTE” or “tiered” pricing models were preferred. [For non-American readers, FTE means “full-time equivalent.” A full-time worker is the same as two half-time workers.] A month or so later, there was a brief discussion on **Liblicense-I** regarding “simultaneous user” pricing models vs. the FTE pricing model. The fact that there was so little discussion was of concern to us. We are concerned that if librarians do not speak up and clearly delineate our thoughts about these pricing models, we will be forced to accept flawed and unfavorable pricing models. We are also interested in what others think about the arguments we present. We hope this brief article will generate thoughtful discussion at the next **Charleston Conference**. If you are interested in participating on a panel to discuss pricing models at the **2003 Charleston Conference**, please email **Barbara Schader** at <bschader@library.ucla.edu>.

## Our Environment

Unlike the print world, where access to information can be decided on a purchase/don't purchase level, delivery of electronic information comes with a myriad of licensing options. No one licensing option can hope to be adequate for every library. With that in mind, the reader needs to understand both the environment from which the authors come, and the situations with which we are concerned.

We both work at biomedical libraries, specifically medical school libraries. We deal with highly specialized information at a post-graduate and above level. In our discussion of FTE versus simultaneous users, we are not concerned with access to journals (although we do have much concern about electronic access to journals...). Likewise, we are not considering access to generalized, “utility” databases such as *Encyclopedia Britannica*, that are popular with undergraduate institutions. We are discussing specialty databases meant for biomedical researchers and physicians, such as **Mouse Knockout & Mutation Database**, **Cochrane Collaborative** (dealing with evidence based medicine), and **UpToDate** (a clinical information resource covering expert answers to patient care, diagnosis and treatment questions).

It is our position that simultaneous user pricing is far more advantageous to both the library and database producer than FTE pricing for these kinds of databases.

## The Philosophy of the Models

Both simultaneous user and FTE pricing of electronic resources are “models,” and are mostly unrelated to how things are bought and sold in the non-digital world. For centuries, librarians have purchased books. If more access was needed for a particular book, another copy was purchased. In the digital world, things are simultaneously easier and more complicated. If more access is needed for a particular electronic resource, a duplicate physical copy is not necessary — the resource producer merely has to “turn on” extra access. Purchasing this extra access, however, is where things get complicated. Different information producers have created different pricing models reflecting different philosophies of access and marketing.

**Our interpretations of these models are as follows:**

Simultaneous user pricing is based on the maximum number of actual users of an information resource at any one time. A library estimates how popular the resource will be, and purchases a corresponding number of “seats” that will be available at any one time. In the real world, this is comparable to a family of five purchasing three passes to the community swimming pool. Because of busy schedules, it is unlikely that all five can go swimming at the same time. Purchasing only three passes is more economical, and can satisfy the family's swimming needs most of the time.

FTE pricing is based on the assumption that the size of an institution can be used to estimate usage of an electronic resource. The way FTE is counted varies. It may be all students, just graduate students, all faculty, just graduate faculty, or even all students, faculty, and staff combined. Larger institutions are assumed to have more users than smaller institutions, and thus will pay more for access. Actual usage of the resource is not considered for pricing. In most cases, this model allows an unlimited number of simultaneous users. To continue the swimming pool metaphor, with FTE pricing the pool would charge families by their size. Even if only one swimmer is in a family of six, that family would pay more than a family of four with three swimmers.

## The Pros and Cons

Like most complicated situations, there are few black and white statements that can be made about FTE and simultaneous users pricing. The pros and cons of each model are relative, and may change with specific situations. Nevertheless, we discuss below some of the more general pros and cons about both models, from the perspective of libraries and publishers.

## \*FTE from the Library's Side\*

### Pro: pricing may be inexpensive

In certain situations, there may be reasonable, relatively inexpensive FTE pricing for small, secondary educational institutions.

### Con: pricing more likely to be expensive

FTE pricing for specialized databases is usually very expensive for large institutions, regardless of the actual number of users.

Yes, there is a relationship between size of institution and **possible** number of users. The question is, how strong a relationship? This varies from institution to institution and while it might seem reasonable to base pricing this way, there are so many exceptions that a library can become reluctant to purchase an expensive FTE-based product if few users are expected.

### Pro: unlimited usage

Any legitimate user can access the database with no possibility of lockouts.

### Con: difficulty in reporting numbers

Because a license is a legal document, it is important to obtain accurate figures for FTE reporting—whether those figures cover students, staff, faculty, or specific departments. However, in large universities, it is almost impossible to obtain these figures accurately. It is even difficult for each stakeholder at a university to provide the same answer to the same question. Deans of various schools can have figures that differ significantly from those figures kept in the Chancellor's office, which may differ from those in Academic Personnel and from Student Services. The reasons for these huge discrepancies depend on the way each group is defined and then counted. Medical schools are particularly complicated. For example, the Department of Medicine may count all faculty on the payroll, all attending physicians whether on the payroll or not, and adjunct faculty who may or may not be on the payroll. However, the Academic Personnel department will only count those individuals who are on the payroll, while the Chancellor's Office may count a combination of the above, depending on the purpose of the count. These three reports can vary from each other by hundreds of individuals. Multiply this by each department, and the difficulty is apparent.

### Con: research focus varies at different institutions

One size does **not** fit all. Two universities of exactly the same size may each have a Division of Life Sciences, and each may be contemplating the purchase of an agricultural database. University A is an Ag school, and most of its 150 life sciences faculty are dealing with

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some aspect of agriculture from plant sciences to entomology to animal sciences. The agriculture database is very important to them and will be very heavily used. University B, on the other hand, has 150 life sciences faculty members who are specializing in molecular and cellular biology. They do very little work with whole organisms. The agriculture database is tangential for their work, but they would on occasion like to have access. The agriculture database will only be lightly used on this campus. To charge both campuses the same amount of money because they have the same number of life sciences faculty misses the point of research focus: one campus will use this resource heavily, and the other campus will use it sparingly. Why should a library pay for a firehose when it needs a water fountain?

### \*FTE from the Publisher's Side\*

#### Pro: sales to larger institutions guarantee larger income

When larger institutions subscribe, more income flows to the publisher, regardless of actual usage.

#### Con: income lost when institutions decline or cancel

When an institution declines to purchase a database based on FTE pricing, no revenue is realized. This is an all-or-none decision, unlike simultaneous user purchases. The higher prices of the FTE model almost certainly means sales are lost. Which is better for the provider: selling a few high-priced FTE subscriptions, or many simultaneous user subscriptions? Likewise, when libraries are faced with economic hardship, a marginally useful FTE database is quite likely to be a candidate for cancellation, since it is an all-or-none decision. A simultaneous user database, however, can simply have its number of seats decreased during a financial crisis.

#### Con: infrastructure required for unknown usage

With FTE pricing, everyone at a subscribed institution has theoretical access to the database. However, the actual number of users who might use the system at any one time is essentially unknown. In order to avoid complaints about response time, the publisher must build an infrastructure that is large enough to support a large, although unknown, number of simultaneous users. In the name of customer service, it is better to overbuild the infrastructure, which increases costs.

### \*Simultaneous Users from the Library's Side\*

#### Pro: pricing reflects usage

Simultaneous usage pricing more accurately reflects actual usage of a database, unlike FTE pricing, which is based on potential usage. This is more cost effective for libraries, allowing them to obtain resources based on desired scope and depth of coverage in order to support local situations and unique focus.

#### Pro: flexibility can accommodate actual usage

As familiarity and training of patrons for a

database increases, it may be necessary for a library to increase the number of simultaneous users for a database. Most publishers allow this, and it is often possible to increase these numbers within 24 hours.

#### Pro: library can titrate information intake with budget

During times when budgets are being cut, a simultaneous user model will allow libraries to continue to subscribe to a needed resource albeit at a reduced level. Under the FTE model, the library's only choice would be to cancel the resource.

#### Con: lockouts can occur

If a library has purchased too few simultaneous user seats, peak usage may cause users to be temporarily locked out of the database. This is frustrating for users, and can cause public relations problems for the library. Also, if a database has a persistently slow response time, users must spend more time on it, which increases the pressure for more simultaneous user seats to be purchased. But no publisher would build-in a slow response time on purpose, would they?

### \*Simultaneous Users from the Publisher's Side\*

#### Pro: increased sales

Since libraries can purchase as many simultaneous users as they need and can afford, many more libraries are likely to purchase.

#### Pro: realistic infrastructure costs

With simultaneous users, the publisher knows exactly the peak usage that can occur. There is no need to overbuild to accommodate large numbers of potential users from FTE subscribers.

#### Pro: lockout pressure

When a library realizes that a significant number of lockouts are occurring (either through publisher reports or user complaints), there is increased pressure to purchase additional seats.

#### Con: income not as high?

Many publishers are apparently concerned they will not make as much money with this model as with the FTE model. As far as we know, this is an unproved assumption, and in fact, potential income is lost, since some institutions will not subscribe to resources using the FTE pricing model.

### The Economics of Choices

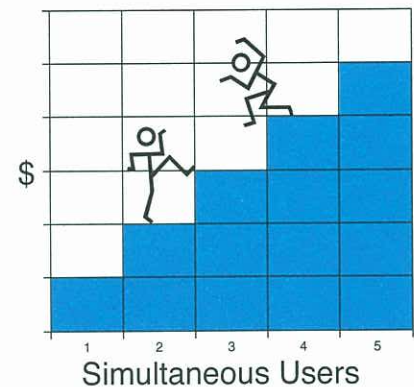
Underlying the pros and cons of FTE and simultaneous users are the opposing economic forces that currently affect the pricing and purchasing of databases:

1. Libraries are faced with limited budgets that are increasing in pace with neither the pricing of electronic resources nor the availability of new resources.
2. Publishers of electronic databases want to maximize their income.

These opposing forces have the potential of a stalemate between libraries and publishers, with libraries unable to purchase new databases or to renew increasingly expensive existing databases. What can break this stalemate? Choices. Which model offers more choices? Simultaneous users.

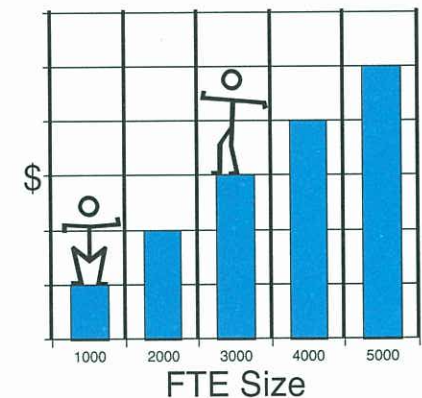
Examine Figure 1, a simple illustration of simultaneous user pricing. In this step-like arrangement of pricing, librarians are able to move up or down both the pricing scale and the user scale. They can choose which circumstance best fits both their budget and specific information needs of their clients. If fewer dollars are available for the resource, a step down can be made. If more simultaneous users are needed, a step up can be arranged. In this situation, librarians can place the budget first, the users first, or even create a blend of priorities. Here, choices are abundant.

[Figure 1]



Contrast the above with Figure 2, which illustrates FTE pricing. Here, there is no freedom to move up or down. Librarians are imprisoned within the FTE grid, and forced to pay for the resource based on the size of their institution. It doesn't matter if resources are scarce, or if very few clients would use the resource. There is only one choice for the librarian: to subscribe or not to subscribe. With the current financial situation of most libraries, not to subscribe will become the most common choice.

[Figure 2]



### Improving the Simultaneous User Model

It should be obvious that we greatly prefer the simultaneous user model. However, a relatively simple technological tweak can vastly improve it. We call it the "call back" technique. The main drawback with the simultaneous user model for libraries is the occasional lockout, when available seats are surpassed by demand.

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This is frustrating for the "lockouttee," who can often be seen madly clicking every few seconds, attempting to find an empty seat in a computerized game of musical chairs. In the call back technique, when all seats are taken, the producer informs the lockouttees of the situation in a separate browser window, and asks whether they would like to be informed when a seat becomes available. If a positive response is received, the lockouttees can continue browsing other sites. When a seat becomes available, the aforementioned window pops up to become the topmost window, and the user is connected. Waiting becomes much less painful, and lockout statistics become much more meaningful.

### Putting it into Perspective

While we hope we have presented an even-handed critique of the simultaneous user and FTE models, producers should be aware that there is a great deal of dissatisfaction with the FTE model among librarians. Many of us feel it is unfair and exists primarily to increase income rather than deliver a service. To that end, here's a classic joke that illustrates our frustration with FTE pricing:

A husband and wife are traveling by car from Key West to Boston. After almost 24 hours on the road, they're too tired to continue, and decide to stop for a rest. They stop at a nice hotel and take a room, but they only plan to sleep for four hours and then get back on the road.

When they check out four hours later, the desk clerk hands them a bill for \$350.

The man explodes and demands to know why the charge is so high. He tells the clerk although it's a nice hotel, the rooms certainly aren't worth \$350.

When the clerk tells him \$350 is the standard rate, the man insists on speaking to the manager. The manager appears, listens to the man, and then explains that the hotel has an Olympic-sized pool and a huge conference center that were available for the husband and wife to use.

"But we didn't use them," the man complains.

"Well, they are here, and you could have," explains the manager.

He goes on to explain they could have taken in one of the shows for which the hotel is famous. "The best entertainers from New York, Hollywood and Las Vegas perform here," the manager says.

"But we didn't go to any of those shows," complains the man again.

"Well, we have them and you could have," the manager replies.


No matter what facility the manager mentions, the man replies, "But we didn't use it!"

The manager is unmoved and eventually, the man gives up and agrees to pay.

He writes a check and gives it to the manager. The manager is surprised when he looks at the check. "But sir," he says, "this check is only made out for \$100."

"That's right," says the man. "I charged you \$250 for sleeping with my wife."

"But I didn't!" exclaims the manager.

"Well," the man replies, "she was here, and you could have." 

## The Merry-Go-Round Revisited: Libraries Buying Books Online

by **Sydney K. Allen** (Instructional Support Associate, Acquisitions Department, University Libraries, State University of New York at Albany) <skallen@uamail.albany.edu>  
and **Heather S. Miller** (Assistant Director for Technical Services and Systems, University Libraries, State University of New York at Albany) <hmiller@uamail.albany.edu>

In the April 2000 issue of *Against the Grain*, the authors compared purchasing new books from a traditional library book vendor and from one Internet bookseller.<sup>1</sup> The Internet bookstore did not fare well in the comparison, failing to provide lower prices or demonstrable speed in supplying the 81 books studied. Three years later, given the rapid change in libraries, book selling and the online world, it is time to revisit the question: is it more advantageous for libraries to purchase books from an Internet bookstore or from a traditional library book vendor?

What has changed? The dot.com bubble has burst. No longer is the great world-changing promise of the Internet touted at every turn. No longer do state employees with job security bemoan the lack of the juicy perks once offered to dot.com workers — private gyms and cafeterias to which they could invite their families, stock in the company, etc. Along with the bursting bubble, the hype has faded and been replaced with the fact that the Internet has proven itself to be a viable means of doing business. *Business Week* reported that, contrary to the experience of mall merchants, online retailers experienced a holiday sales revenue increase of more than 20% in 2002.<sup>2</sup> When the SUNY Albany Purchasing Department decided to permit placement of direct online orders for office supplies, foregoing the cumbersome paper purchase requisition and slow approval process, it was a clear sign that the hyped up frontier days of the Internet were gone. Online commerce is now business as usual.

This is as true for libraries as it is for businesses and individuals. Informal inquiries indicate a gradual increase in the number of libraries with credit cards. With experience, Website designers have learned how to make sites more user friendly and functional, and librarians have become more comfortable placing orders over the Internet. More booksellers, even local brick and mortar book stores, have Websites. And there are altogether more sites on the Internet, making it the "largest buyer's marketplace in the history of the world."<sup>3</sup>

Moreover, there is now more accommodation of libraries, at least by some of the most prominent and familiar Internet bookstores. Both **Amazon.com** and **BarnesandNoble.com** now offer corporate

accounts and make them available to libraries. The application process is not onerous but not quite as friendly as that found at a traditional library book vendor.

It is now possible to purchase new and used books, even new and used copies of the same book, at a single site, blurring the once separate realms of new and used bookselling. Three years ago, the Internet bookseller we studied offered the option of requesting an OP search, the results of which were sent to the requestor. Without making this request, it was not possible to see the list of available copies and sellers, nor was there the opportunity to purchase second hand copies of in-print titles. While this raises a number of issues for libraries, it does consolidate information regarding specific books.

Three years ago, shipping costs were a significant factor in the equation. Today, two of the prominent Internet booksellers, **Amazon.com** and **BarnesandNoble.com**, offer free shipping, the former based on the total cost of the order, the latter based on the number of items in the order. However, it should be noted that in both cases the free shipping offer applies to "qualifying titles" only. For example, both companies exclude electronic books, used and out of print books from this offer. And both companies include the common clause of retaining the right to alter or discontinue this offer at any time. Still the selection of "qualifying" titles is quite broad and could be beneficial to all types of libraries while the offer lasts.

Another change from three years ago has been the representation of Internet booksellers at library events such as ALA conferences and even participation on a panel at the **Charleston Conference**. One major Internet bookseller further demonstrated its desire to attract the library market by creating an additional arm of its Website specifically for libraries. Unfortunately, we were unable to find many services that would be of real value. Some libraries might be able to take advantage of the additional discounts offered when purchasing 50 or more copies of the same title. More might be interested in the "Purchase Orders Accepted" application. Beyond these two features, others are tied to promotional categories (*i.e.*, bestsellers, hot picks, various book club picks and new writers). There is also a feature by which one can read the first chapter of selected titles before deciding whether to purchase them. However,

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