

## Price and Competition Consortial Strategies for Procuring Information

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### Introduction

The issues discussed here (the advantages of consortium purchase; national or regional negotiation; separation of electronic from hard-copy procurement; creating competition between monopoly suppliers) are treated more fully in my report on research undertaken for Resource (The [UK] Council for Museums, Archives and Libraries) in March 2002, and in an earlier paper.<sup>1</sup>

### Advantages of consortium purchase

#### *Price*

There is a general feeling that consortia, by negotiating with publishers, will be able to obtain much lower prices for e-resources than individual libraries.

This is not necessarily the case: discounts for printed resources have been available to consortia because of competition amongst the suppliers (hitherto always intermediaries); publishers are monopolists.

Consortia have been able to negotiate significantly lower prices for books, e.g. following the demise of the Net Book Agreement in the UK. However these savings have come from the margins allowed to intermediaries (the library suppliers) by the publishers. There are signs that these discounts are decreasing, as publishers reduce the margins they allow the intermediaries, and as the number of intermediaries, and hence competition, decrease.

Discounts on serials negotiated by the academic library consortia, however, have been generally low, counted in ½% points, despite the high volumes of business, e.g. over GBP10m (€15m) p.a. in a single contract, on offer. The margins for the intermediaries are themselves low, and again decreasing.

Publishers will not be willing to enter agreements with consortia that decrease the revenue they get from a sector. Unless there are compensating gains elsewhere, or threatened loss of business, why

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<sup>1</sup> *Consortium purchase of electronic resources by public libraries in England: intelligence gathering for Resource, stage 1*. Available on: <http://www.resource.gov.uk/information/research/re178-01.doc>. "The information value chain: emerging models for procuring electronic publications", *Online information 2000: 24<sup>th</sup> International Online Information Meeting: proceedings*, conference editor Catherine Graham (Oxford: Learned Information Europe, 2000), pp.213-223.

should they freely enter agreements that will directly and adversely affect the all-important bottom line?

There is evidence of this attitude across the sectors. It is said for instance that titles were withdrawn from the Gale agreement on newspapers for public libraries in the UK, because publishers feared sharp decreases in their CD-ROM revenue.

In the academic sector national deals with a single publisher are often tied to the value of existing print subscriptions: a small discount may be allowed, particularly if print is cancelled, but annual cost increases are factored in. What academic libraries generally gain under such deals is electronic access to the publisher's complete portfolio of content. Other benefits may also be seen, for instance in reduced Inter Library Loan (ILL) costs.

### *Other*

There are however other advantages inherent in consortium purchase, apart from price.

Negotiations with suppliers and the management of contracts are time-consuming and require specialist procurement skills. Savings and efficiencies will result from aggregation into consortia. Suppliers will be more willing to tailor services (interfaces, for instance) for a consortium than for an individual library. Direct and hidden costs will be shared across the membership.

However there is a major danger in such "all-you-can-eat" deals. At the end of the agreement's term, the publisher will be able to offer a stark choice: pay a hugely increased subscription or go back to print. Users' requirements (must-have titles) will generally force academic libraries to take the first option, with potentially disastrous consequences for other budgets and publishers.

### **National or regional?**

There is a similar feeling that nationally negotiated deals will be more favourable than regional deals. However, there is no magic formula to determine which level of procurement or action is the optimum: each business case must be judged on its merits, taking account of the product to be procured and market conditions.

### *National*

Procurement at the national level may not provide the best deal in the long term, especially in markets where there are few potential suppliers. The case of the recent Southern Universities Purchasing Consortium's (SUPC) contract for hard-copy serials illustrates this.

The SUPC is one of seven regional purchasing consortia operating in UK HE, and covering all areas of university expenditure. All the consortia follow the agreed National Protocol for Co-operative Procurement. This Protocol is designed to establish the appropriate level for any procurement – regional or national – by producing an agreed business case taking full account of the commodity to be procured and market conditions. National procurements are led by one of the consortia. Because of the small number of potential suppliers (only three serials agents of appropriate size) it was decided under the Protocol that procurement of serials at the national level could irreparably damage the marketplace by potentially putting suppliers not selected out of business. Procurement at the regional level (a revolving door) was demonstrated both to foster competition and to offer the best chance of maintaining an appropriate number of suppliers in the marketplace.

National deals with monopoly suppliers may be particularly dangerous, as outlined in §2.1 above.

This is not to imply that nothing should be undertaken at the national level, simply that the business case must be carefully considered, and that an appropriate national forum is needed for such consideration. This process might avoid some of the problems highlighted in §§2.1 and 4.

### ***Regional***

In UK HE there are strong regional consortia, with loyal and committed memberships, delivering complex contracts worth in aggregate well over GBP60m (€94m) p.a., with large savings and benefits. A particular strength is their democratic nature. Most are adept at keeping close to their grass-roots and reflecting the requirements of individual institutions; this may be problematic when operating at the national level.

Consideration should be given to utilising existing strengths and experience at the national level. The HE regional consortia illustrate how national strategy and action can be developed and carried on, by means of a decision-making forum and protocols, without instituting a separate national body. The problem of remoteness from grass-roots opinion and requirements is also largely avoided. National-level procurements are led by individual consortia on behalf of the others.

### **Separation of electronic from hard-copy resource procurement**

In UK HE there has been a *de facto* divorce of the procurement of e-resources (by CHEST, NESLI) from the procurement of hard-copy resources (by the regional purchasing consortia).

This divorce is beginning to have deleterious financial results. When NESLI was created, there was no co-ordination with the existing procurement consortia, which already had large traditional hard-copy contracts. The initial enforced switching of payments away from existing serials agents, contracted to the consortia, to the NESLI managing agent is now resulting in the potential loss of volume-related discounts on the hard-copy contracts. The scale of such losses may be surmised from the figures given above.

There seems no logical reason for this separation: the information, publishers and purchasers are the same, regardless of the medium. Libraries generally seek to provide their users with an integrated, holistic approach to information resources; one might therefore also expect the same holistic approach to the procurement of such resources.

### **Creating competition between monopoly suppliers**

Some of the effects of dealing with monopoly suppliers have been discussed above. The following suggestion is offered as an illustration of how competition might be created. It is based on the premise that the purchaser should specify her/his requirements (and set his/her budget), then invite the market to satisfy them, rather than allow the supplier to determine what the purchaser may buy and on what terms.

Pricing Electronic Access to Knowledge (PEAK) was a trial in electronic access, pricing and bundling by the University of Michigan and Elsevier Science, offering three access models:

- **Traditional subscription** – Institutions and individual users can buy unlimited access to a set of articles that correspond to a print journal title.

- **Generalised subscription** – Institutional users can buy unlimited access to bundles comprising any 120 articles from the entire database of priced content. Articles are selected after the fact of subscription and may be accessed by all authorised users at the institution.
- **Per article** – Individual users can buy limited access to a specific article for a fixed price.

PEAK is a most interesting model, offering the publisher some degree of stability of income and the library and its patrons flexibility in collection and selection. It also offers the possibility of devolving purchasing decisions to the end-user, who is best placed to judge value.

As far as the publisher is concerned, the two subscription models replicate, or are at least similar to, current pre-payment practice. Publishers therefore have the prospect of some guarantee of stability of income in what would probably be a transition to a completely different payment structure. Moreover, the purchase from the publisher of individual articles for personal use would potentially divert an income stream from intermediaries, in the form of document delivery services, to the originating publisher.

As far as the library is concerned, spending is, as now, limited by budget rather than driven by usage. However, at the same time, there is a great degree of flexibility in the selection of material, which should allow libraries to provide, within budgets, what their users require, rather than what is offered in publishers' bundles. The traditional subscription model facilitates the purchase of core 'cover-to-cover' titles. The generalised subscription model breaks the tyranny of the title, allowing libraries to build the eclectic collections their users require.

The purchasing decisions in the generalised subscription model can be devolved as the institution wishes: to subject librarians, faculty representatives, individual members of academic staff or even the student body. This devolution should enable individual users to ensure that budgets are spent in accord with their perceived needs, resulting in better value for money from library spending.

A generally applied PEAK model, with the major publishers participating, would require systems to manage the search and retrieval function and the payment (presumably by e-commerce) function.

It might also have interesting implications for the position of publishers as monopolists. With purchasing decisions made at the level of the individual article, there may be more intense competition between publishers on content, price and terms of use. On the other hand, with document delivery providers increasingly cut out of the chain, the monopoly position of publishers as suppliers of information would be enhanced.