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Case Notes

Academic Journal Bundling

I. Materials

Edlin, Aaron S. and Daniel L. Rubinfeld (2004). "Exclusion or Efficient Pricing? The "Big Deal" Bundling of Academic Journals", *Antitrust Law Journal*, 72(1): 119-159.

II. Propositions

A. In what ways are strategic issues facing Elsevier similar to those facing Microsoft?

B. Asserted: Entry barriers in scholarly publishing are low: "Indeed, publishers have been eager to start new journals, and many have appeared in recent decades" (p. 131). Thus, for-profit publishers do not have substantial market power.

C. Asserted: "Big Deal" bundles result in lower overall prices than à la carte pricing, and in greater consumer access to content, therefore they make consumers better off and should not be prohibited as anti-competitive.

III. QUESTIONS:

A. Facts

1. How significant are electronic journals for scholarly publishers?

a) Elsevier claims to have 3rd largest Internet revenues (after Amazon, AOL-Time Warner)

2. What are the trends in pricing?

a) Prices increasing

(1) 1984-2002:

(a) Legal up 224%

(b) Science up 600%

(2) 1986-2000: all serials up 226%

b) For-profit journal prices are about 5-9 times as high (per page) as not-for-profit journals

(1) What does competition predict?

(2) Does price difference then imply imperfect competition? Why are for-profit prices so much higher (sustainably)?

3. What effect on budgets

a) 1986-2000:

(1) CPI up 57%

(2) monograph spending up 48%

(3) serials up 192%

4. What bundles are publishers offering?

a) the "Big Deal"

b) Electronic + print (discount on electronic if don't cut print)

- (1) Key: no savings to libraries from electronic publishing: pay for same print journals, with annual price increases
- c) Electronic + electronic (discount for taking *all* journals)

B. Discussion questions

1. In what ways are strategic issues facing Elsevier similar to those facing Microsoft?

2. Why do authors still submit to journals given increasing prices?

- a) **Network effects**: search costly, authors want readers
 - (1) Place articles in best known, most read journals
 - (2) Readers / libraries keep buying them because they have the best content

3. Why are prices high and increasing?

- a) Mergers, increasing concentration? How much?
 - (1) 1984-2001: 70% CPI, 205/479/615% for law, medicine, science journals
- b) Is concentration enough?
 - (1) Need entry barriers, too (WHY?)

4. What are the barriers?

- a) What ARE barriers in general?
- b) How hard has entry actually been? “Indeed, publishers have been eager to start new journals, and many have appeared in recent decades” (p. 131)
- c) Structural
 - (1) **coordination equilibria**
 - (a) a valuable journal requires simultaneous agreement on value (and action based on that agreement) for authors, reviewers, editors, referees, libraries, tenure committees, indexing services
 - (b) very difficult to establish a coordinated equilibrium for a new journal (network effects: excess inertia!)
 - (2) **switching costs**: libraries have long investments in archives of certain titles
 - (3) **limited information**: very little direct usage information for print journals
 - (4) **large first-copy costs**, up-front investments to recover – need large subscription base, which usually takes years to develop
- d) Strategic
 - (1) Are bundles a barrier?
 - (a) Say library can buy only 1 bundle: forces a competitor to enter with a full line of equivalent journals!

(b) With Big Deal, cancellation of a title only saves about 10% of full sub price, so new entrant has to beat that

e) What sort of price discrimination do Big Deal bundles entail?

(1) 2nd degree: choices of different schedules, self-select

(2) 3rd degree (e.g. the Elsevier "Comprehensive Collection" contracts)

(a) price depends on observable characteristics, e.g., prior subs

(b) School A got only \$10K of math collection before, full collection \$100K, pays 15% * 90K + 10K = \$23.5K

(c) School B got \$90K before, pays 90 + 15% * 10K = \$91.5K

(3) attempts at 1st degree by individually negotiating deals

f) What benefits from bundles?

(1) broader access

g) "Big Deal" bundles result in lower overall prices than a la carte pricing, and in greater consumer access to content, therefore they make consumers better off and should not be prohibited as anti-competitive

(1) desktop access

(2) access to additional journals

(3) higher prices: if sold a la carte, publishers could (do?) sell electronic at higher prices

5. How does electronic publishing affect these barriers?

a) Structural

(1) reduces distribution cost and some of the first-copy costs

(2) but all in all, has little effect

6. Do large for-profit publishers have monopoly power?

a) Price evidence?

(1) Price per page are much lower (3x-5x) for non-profit journals

(2) Price per citation (to control for quality) even lower: (5x-18x!)

b) But: quantity differences?

(1) Due to high fixed costs, competition should equate average costs, so if for-profit are small base niche journals, their benchmark prices *are* higher