SI 646 - Information Economics, Winter 2007

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<http://hdl.handle.net/2027.42/64937>
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Case Notes

Academic Journal Bundling

I. Materials

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 \ 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.

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)
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!
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

``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