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Where are the Industry, the Profession and the Art Headed?

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A brief resumé of consolidation

Since 1985 there has been a clear process of merger and acquisition in scholarly publishing. Random examples include:

- Elsevier acquired Pergamon, Harcourt, JAI Press, Cell Press and Hanley & Belfus amongst others.
- Elsevier has also acquired electronic distribution mechanisms such as ADONIS (which is no more), BioMedNet and even library system vendors like Endeavor.
- Bertelsmann acquired Springer Verlag; in 2003 it sold it to Cinven and Candover.
- Wolters Kluwer has acquired Plenum, Lippincott, Raven Press, Waverley Press/Williams & Wilkins, Adis International, Arnette Blackwell, Chapman & Hall and Little Brown
- Wolters Kluwer, like Elsevier, has moved into Internet-based distribution by acquiring Ovid
- Wolters Kluwer then sold Kluwer Academic to Cinven and Candover
- Wiley has acquired Van Nostrand Reinhold, VCH and other, smaller publishers
- Harcourt has added Mosby, Morgan Kaufmann and Churchill Livingstone to its STM Group, which included Academic Press and Saunders. It was itself acquired by Elsevier in 2000.
- Thomson sold its STM publishing interests by dismembering Chapman & Hall (which in an earlier existence was owned by the same company as Routledge) and selling the pieces to Kluwer, CRC Press, Hodder Headline etc.
- Taylor & Francis celebrated 200 years of scientific publishing in 1998, became a public company quoted on the London Stock Exchange, and has since acquired Routledge, Carfax, Europa, Martin Dunitz, Scandinavian University Press journals, CRC Press, Gordon & Breach - all in less than five years.
- ProQuest bought Chadwyck-Healey and Micromedia.
- EBSCO has bought a number of subscription agents over the years, including Lange & Springer and, of course, RoweCom in separate transactions involving Europe, Australia and the USA.
- Swets has acquired a number of smaller European subscription agents over the years, and then swallowed Blackwell's subscription business.
- Ingenta has acquired CatchWord, HERON and PCG.

Why does this happen? Does the answer lie in ordinary corporate behavior?

The first point to note is that mergers and acquisitions are not unusual in business or peculiar to our community. Such activity is merely part of the complex range of corporate behaviour patterns that underlie every company's objective of survival and prosperity:

- They do this by making profits in order to reinvest and to provide a return to their shareholders. Shareholders take a risk in investing in equities, and therefore expect a higher return than they would get from a savings account in a bank, in order to compensate for the risk.

- Those that are quoted on the Stock Exchange are driven to do this by institutional shareholders that invest our pension funds and mutual funds. It is wholly unrealistic to expect scholarly and medical publishers to be immune from the drivers that make western economies so successful.

- As individual human beings, we compete with each other for promotion – more responsibility, more respect from our fellows, and more money. This is not confined to business. It is a feature of academic life, politics and every other walk of life. Companies are much the same; after all they are communities of individuals. They don't motivate staff by asking them to build shareholder value, but by asking them to outperform the competition:
  - by creating better products that people want to buy
  - by producing them more efficiently, and
  - selling more of them more profitably.

If businesses are successful, they expand by developing new products or entering new markets, or by buying a company that achieves that objective. This is generally true in retail, in pharmaceuticals, in energy, in aviation, in telecommunications, to take but a few examples.

What were the motives?

Each purchaser has a different reason. There are general reasons that apply to most corporate activity, but these take-overs expose a whole range of motives:

- Elsevier bought Pergamon to give it a major presence in UK journal publishing. Bob Maxwell sold, much to everyone's surprise at the time because Pergamon was his crown jewels, because he needed the money
- Taylor & Francis simply wanted to get bigger. Tony Selvey, the previous Chief Exectutive and architect of T&F's expansion, nurtured an ambition to make T&F one of the leading acdemic publishers worldwide.
- Bertelsmann bought Springer in order to become a serious player in STM publishing. Its other STM publishing was too small to be significant, so it had to get out, or get in. It chose to get in. After the departure of Thomas Middlehof as CEO, it chose to get out.
- The subscription agency mergers and acquisitions have come about because operating margins have become razor-thin, as demands for bibliographic and technical services have increased and publishers' discounts have gradually decreased.
- Cinven and Candover have bought Kluwer Academic and Springer Verlag in order to make money. They will in due course make an exit, probably by floating Springer on the Stock Market, within five years.

To complete the equation, buyers need sellers. There are many reasons for selling. There is, of course, simply cashing in on the investment. But there are other reasons:

- Thomson disposed of Chapman & Hall – and, before that, Routledge to a management buy-in - because primary scientific and medical publishing no longer fitted its strategy
- Pearson disposed of Churchill Livingstone, Macmillan Reference, Appleton & Lange etc. because it had decided to refocus its activities and dispose of its medical, reference, business and professional publishing.

There are still thousands of publishers in the academic and professional markets. When I was Managing Director of Blackwell's, we had over 20,000 active publisher accounts to deal with. In spite of consolidation, that number has not changed very much. The vast majority of publishers publish one journal. And beneath the surface, a huge range of trading activity is bubbling away:

- Non-profit publishers buy and sell journals as much as commercial publishers. Oxford University Press operates in the same way as Taylor & Francis.

- Learned societies frequently change publishers, as they look for a better financial deal from the publisher, or simply feel they are not being treated properly or professionally.
- Universities spawn journals as groups of academics get together to found a new journal. The record of universities successfully publishing journals on a long term basis is very patchy, and these titles are often subcontracted or sold outright as the original founders run out of steam.

Publishing is no different. Even in the non-profit sector, societies strive to expand the range of services offered to their members. They develop publishing programs. And they often depend on those programs to finance additional member services. Members look for value from their investment in membership subscriptions, like shareholders do.

Should professional and scholarly publishing be different?

The market for research literature – journals and monographs - is inelastic and somewhat dysfunctional:

- It is trying to cope with an explosion in information. There is a great deal of data to demonstrate that the number of papers has increased at roughly the same rate as expenditures on research and development in western economies. The number of papers published per researcher has remained level over the past twenty-five years; it is the number of researchers that has doubled.

- Meanwhile, library expenditure has increased by less than half that rate. It is heavily dependent on public funds in most parts of the world. Moreover, library expenditure has decreased from an average of 4 per cent of total university expenditure in 1980 to less than 3 per cent today. In the quest for funding, librarians have failed to preserve their fair share.

- Most important, it does not behave like a normal market. Information is used by practitioners and researchers – the users. Publishers promote their wares to users themselves, because they tell libraries what they need, without having to take any budgetary responsibility. Librarians manage the budget, but have to be responsive to researchers' demands. There is an almost complete failure of market signals, especially of price signals to the ultimate consumer, the reader.

I make no excuse for price gouging, or poor customer service, or lousy publications. But we are all complicit – publishers, librarians and academics:

- Journals only exist because there are papers submitted to them to publish. Michael Mabe's analysis of the data suggests that roughly 100 additional article a year is enough to spawn a new journal. Publishers only respond to that demand. In my time at Carfax, we turned down tens of proposals from academics for new journals for every one that we felt was worth launching.
- There has been a fragmentation in disciplines, and in the journals that reflect the, as highly specialised sub-disciplines are not adequately reflected by the large established broad journals.
- Librarians have been unable or unwilling to punish those publishers who have been guilty of excessive pricing, and have failed to convince the university community that they need more funding.
- They have directed their rhetoric at an alleged distinction between nasty commercial publishers that suck money out of the scholarly community and saintly non-profit publishers that only put money in, instead of addressing the funding issue and behaving like proper consumers.
- Much of the discussion about scholarly communication is undertaken as if it is a wholly self-contained capsule with no duties to the wider community, or acknowledgement that the market for research literature extends into business, professional and educational markets and ultimately is of relevance and importance to the man and woman in the street. But the process of academic research and publication is not an island. Those nasty commercial publishers pay tax, which funds much scholarship and research, and pay dividends to university endowment funds. Non-profit publishers in the USA do not pay tax, so make no contribution to institutional expenses.

This relative lack of price resistance has led to dramatic increases in journal in the last three decades. Swets Blackwell's pricing projections for 2003 indicate that, for instance, the average price of journals in medicine US$ 547, in science US$ 1875, and in technology US$ 695. The average journal price is now US$ 658.

Overall, individual journals are more than 30 times more expensive today than they were in 1970. This represents an average annual increase of 13 per cent. There is a cluster of reasons, and considerable evidence, that much of the pressure on prices emanates from:

- the growth of research at roughly 3 per cent per year, leading to increases in pages and issues published
- the cancellation of subscriptions, and
- the increasing trend of institutions to recharge to the journal the overhead incurred by the editorial activities of its staff.

But in 2003 the overall average rate of increase in individual prices was 6.4 per cent. And ARL statistics show a drop in the median serials unit cost by nearly seven percent from over $300 to slightly under $280 in 2000-01. This is attributed to following three factors:

- Libraries opting for electronic-only subscriptions at a modest discount off the print subscription price;
- The unit cost of journals purchased 'in bulk' by library consortia, often providing additional titles, with the cost being spread across all member libraries;
- The result of initiatives like SPARC in focusing attention on publishers' pricing policies.

This is clearly the result of new pricing and purchasing models for electronic information, and the disquiet within the academic community itself that is evidenced by SPARC, Create Change, Public Library of Science and the interest being shown in open access for scholarly literature. It is also the result of the development of resource sharing into formal purchasing consortia. An economist's view is that purchasing consortia will actually distort the market, but it is clear that, in an imperfect market, librarians now have the opportunity collectively to deploy their purchasing power and secure better value for money. While the larger publishers have taken the lead, the outcome depends as much on imagination and flexibility in the face of market demand as on size.

Does size affect pricing?

The most important motive for mergers and acquisitions, or even for organic development is simply to grow in size – and that means profitability as much as sales revenue.

The most immediate effect of a major acquisition is the quest for economies of scale and the elimination of duplicated functions. Taylor & Francis promised its investors that it and Routledge – a larger publisher – would save $3.5 million per year in costs by combining their accounting, production purchasing, administration and distribution and consequently reducing staff, and thus increasing its profit. T&F did it without touching their on-going publishing programs. It is now a major world player in journal publishing, with over 500 titles in publication.

Pricing policy varies from one publisher to another, regardless of size. In my years at Blackwell's, when we researched the annual index of price increases that I have just mentioned, it was remarkable how varied different publishers' approaches to pricing was, whether small or large, society or commercial. Much depended on the individual publisher's culture and background, or indeed on the views of the individual manager within the publishing house. A change of management may well lead to changes in pricing policy, as we have seen with recent Elsevier announcements. Only last week Elsevier announced that its price increases for 2004 would be 6.5 per cent. Taylor & Francis's pricing policy has resulted in below-average price increases for many years; that it is now one of the major publishers does not appear to have made any difference to its approach.

So Mark McCabe may have created an economic model which purports to show a “portfolio” effect of mergers which leads to price increases. But, as a lawyer, he has not demonstrated causation. He has take a view based on years during which prices did undoubtedly increase; we all followed Elsevier’s example! But the change of chief executive at Elsevier dramatically changed Elsevier’s pricing policies in the late 1990s. This was not systemic, it was personal.

Size does, however, make it more difficult to provide the quality of service that authors and editors expect, and regard as important. Personalized services, carefully tailored to the requirements of the discipline and the needs of the editor and the editorial board, make for a successful journal. Publishers are in the service business; they depend on authors and editors for their raw material. As companies grow larger, that personal element can be so easily lost in the quest for economies of scale. This provides a challenge to the large publishers, and an opportunity for the smaller and, indeed, for new entrants into publishing.

The barriers to entry into publishing are low. There is always the chance of a new entrant carving out a position in the market. Publishing has always been a community of small creative companies, often started by disgruntled ex-employees of larger, more impersonal organizations.

One of the threats of the large publisher/library consortium trading configuration is that small publishers, including many specialist societies with only a handful of journals, may be marginalised. Over four years ago, a number of UK learned societies tried to create a group of publishers to offer a 'critical mass' of titles that is worthwhile spending time to negotiate over. This initiative was probably before its time, and did not move forward. This year, the Association of Learned and Professional Society Publishers (ALPSP) has created a framework within which small publishers can come together in a coalition to offer that same critical mass if titles. It is being managed by Swets Blackwell, and has attracted firm interest from a range of ALPSP members representing over 200 titles.

Open access – a new financial model for a new breed of publisher?

Open access has now become the lightning rod for those who want to overthrow the existing business model. Or more precisely, to get rid of commercial publishers. Michael J Held, Executive Director, Rockefeller University Press, in a thoughtful editorial in the Journal of Cell Biology, pointed out that open access is unproven, however superficially attractive the idea of free access to information might be. He points out that the costs of producing any journal are not trivial: peer review, copyediting, production, distribution (including worldwide online access), search capabilities and archiving technologies. He sees no reason at the present time to destroy the subscription model until it is clear that these new models are viable.

In its response, the Public Library of Science agrees that the investment in peer review and quality online and print publication has been the vital contribution publishers have made to the process; all that they ask is that those costs be seen as the final step in the research process and as such be funded as part of the project. PLoS is a serious and significant test of this theory, and should e treated with respect. But it remains to be proven if such a business model can be applied generally across scholarly journal publishing and replace a model that has operated for 300 years.

In my studies, including a current project looking at publication costs as part of an EU-funded study of open access, it is clear that the only costs that are removed by open access are those associated with subscription management and distribution. And that only applies if the journal is online only. If a print version is still available on subscription, as with the PLoS model, then those costs cannot be removed. The cost of that ‘first copy’ still remain. Moreover, new costs are incurred, in managing payments from authors or institutional ‘memberships’ – i.e. subscriptions by another word. Simply making it available is not enough; it needs to be marketed, simply to ensure that the intended readership knows about its existence. This is not trivial.

Furthermore. I have been surprised to discover that paying editors and referees for the work they do is more widespread than I had imagined. Reviewers' fees of between $50 and $150 are not uncommon. The commonly accepted position that academics author and referee works without any financial reward is an over-simplification, just as the view that all mergers lead to higher prices is at best an incomplete assessment. But then whoever wanted facts to disturb their prejudices!

At a meeting in April at the Howard Hughes Medical Centre in Maryland, a group of funders, scientists, lawyers and publishers came up with a definition of Open Access for individual research articles:

- The author and copyright holder grants all users the free right to access and to copy, transmit the work publicly and make a small number of printed copies;
- The work must be deposited in electronic form in a non-profit online repository that seeks to enable open access, unrestricted distribution, interoperability, and long-term archiving.

It is not clear why the online depository is an essential component of online access. Equally puzzling is the retention of copyright by the author as an essential pre-condition of open access. Surely all that is required for Open Access is that information is made openly and freely available online.

One thing I do know is that a number of major commercial publishers are involved in contingency planning if open access reaches the 'tipping point' at which the whole industry switches business models. Open access will not lead to the demise of the large commercial publisher. If anything, they might well pick up the idea and run with it while the rest of the community continues its debates. Let us wait and see if open access is a substantive development, or little more than another bout of rhetoric that enables us to ignore the very real stresses in scholarly publishing.

A text from Donald Rumsfeld

As a number of you know, I am bewitched by the utterances of the US Defense Secretary. Politics is a trade marked by the clever use of words to define a mood rather than illustrate the facts. In this, Donald Rumsfeld has taken wordplay to a new art form. So let me leave you with a quote from his Department of Defense briefing on 12 October 2001, which perfectly encapsulates the position we are in :

"Things will not be necessarily continuous. The fact that they are something other than perfectly continuous ought not to be characterised as a pause. There will be some things that people will see. There will be some things that people won't see. And life goes on."