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Analysis of Dr. James V. Koch's
College Textbook Cost Study Plan & Economic Analysis

Presented to the Advisory Committee on Student Financial Assistance
by
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There is much on which the higher-education community -- administrators, faculty, students, bookstores, publishers and policymakers -- can agree. Ensuring the affordability and quality of a college degree are surely at the top of that list. From the publishers' perspective, as we collectively discuss how to achieve those goals, three key points set a baseline of engagement:

1. Publishers are sensitive to the rising overall cost of a college education and have responded to consumer demand by giving faculty a wide variety of choices at varying prices. Publishers also have invested heavily in giving students choices by producing digital textbooks and alternative print editions that are routinely sold at significantly reduced rates.

2. Revenue from <u>new</u> textbook sales supports the development and production of educational materials and support services for instructors and students; revenue from used book sales does not.

3. Educational publishing is a highly competitive business. Publishers respond to the market with the most effective and up-to-date products available, or lose business to a competitor who will.

Of late, the textbook debate has been marked more by emotion, advocacy and politicized rhetoric than by informed and clear-headed analysis. Regrettably, misunderstandings and misstatements assumed to be fact have found their way into the mainstream dialogue.

We would like to set the record straight on some of the more egregious claims regarding textbook economics included or, in a few instances, insufficiently addressed in the Study Plan & Economic Analysis (the Study Plan):

Claim #1: The typical four-year public college student will spend $900 to $1,000 on textbooks and course materials this academic year.

> Page 4, paragraph 3: "*CALPIRG (2005) found that students at California public universities spent an average of $898 on textbooks in the 2004-2005 academic*

year. If textbook prices have continued to rise at six percent per year, then this expenditure will rise to $1,009 in the 2006-2007 academic year and constitute 6.1 percent of the estimated annual cost of education for resident student at a four-year public university (College Board, 2005).

Fact #1: The average four-year student spends about $650 a year on textbooks according to several independent studies. When the amount students receive from selling a used book is considered the cost is further reduced.

It is imperative to be clear on the real total cost of textbooks because it affects all subsequent analysis of the issue, such as the extent to which textbooks are, or are not, a barrier to access for students. While it is not our intent to belabor the point, we present the following facts for the Committee's consideration:

- According to NACS and AAP sales data, and independent studies done by Student Monitor and Synovate, the average student spends less than $650 a year on textbooks, a figure that has remained generally steady over the past three years. (More detail is below).

- According to the Department of Education IPEDS survey data, administrators estimate that full-time students spend about $890 per year on books **and supplies**, where supplies include such items as computers, printer cartridges, pens and notebooks.

- Let us reiterate that the money students receive if they sell their books at the end of a term is not included in these figures, so their actual "net" cost could be as much as 50% less, or roughly $325, a very small part of the cost of Higher Education.

- A controversial CALPIRG study that was done in 2004 cites a figure of $898 per student. The above studies show this figure to be in error. In addition, an article in the August 29, 2006 issue of *Inside Higher Education*, points to serious flaws in CALPIRG's study. Naturally, the Study Plan's extrapolation of that erroneous figure to $1,009 for the '06-'07 school year only compounds the error.

- Further evidence of confusion about the student costs of textbooks comes from Dr. Koch's statement (page 5, paragraph 2) that 17.66 million students in total will pay $4.9 billion for textbooks, which, if you do the math, is $277 per student, which seems entirely out of line with the $1,009 figure.

So, which number is correct? Let's look at the facts.

<u>*Surveys*</u>
Two independent consumer surveys compiled by Student Monitor LLC, which specializes in college student research, and Synovate, a global research firm, interviewed college students to find out how much they spend on textbooks. Each semester, Student Monitor LLC, interviews a projectable national sample of four-year college students, and Synovate, interviews two-year and four-year college students at 24 representative campuses. Both surveys show the average student spends less than $650 per year on textbooks.

Student Monitor reports that the average full-time student at a four-year college spent $644 in the 2005/2006 academic year, down 1.7% from 2004/05:

Academic Year	New	Used	Total	Percent Used
2001/02	$392	$221	$613	36.1%
2002/03	$411	$222	$633	35.1%
2003/04	$405	$220	$625	35.2%
2004/05	$421	$234	$655	35.7%
2005/06	$405	$239	$644	37.1%

The Synovate survey, which includes both 2- and 4-year students, found that the average 4-year college student spent $676 on textbooks in the 2005/06 academic year and the average 2-year student, $554. The average spending for all students in the Synovate survey was $612, down 0.6% from the 2004/05 academic year.

Actual Sales Data
Actual sales data from AAP members also suggests that per-capita spending on textbooks is less than $600.

Estimated per capita spending on textbooks, 2005			
Line	**Statistic**	**Value**	**Source**
1	New textbook sales (wholesale)	$ 3,041,000,000	AAP, 6 major publishers
1a	New textbook sales (wholesale)	$ 213,000,000	AAP, all others (est.)
1b	New textbook sales (wholesale)	$ 3,254,000,000	AAP, all publishers (est.)
2	Avg margin on new books	23%	NACS
3	Avg markup on new books	30%	Line 2 / 1-Line 2
4	Total spending on new books (est.) at bookstores	$ 4,640,000,000	Line 1b / 1-Line 3
5	% used books (retail)	35%	Student Monitor, Fall 2005
6	Total spending on textbooks at bookstores, including used books	$ 7,138,000,000	Line 4 / 1-Line 5
7	Online purchases as % of total	8%	Student Monitor, Spr 2005
8	Total spending on textbooks	$ 7,759,000,000	Line 6 / 1-Line 7
9	Full-time students, 2005 est	10,743,000	Dept of Ed middle proj
10	Part-time students, 2005 est.	6,686,000	Dept of Ed middle proj
11	Head-count enrollment	17,429,000	Line 9 + Line 10
12	FTE enrollment (full-time + 1/3 part time)	12,971,667	Line 9 + (Line 10 / 3)
13	Spending on textbooks per student	$445	Line 8 / Line 11
14	Spending on textbooks per FTE student	$598	Line 8 / Line 12

The above chart illustrates that 13.0 million students spending $7.3 billion equals per-capita spending of around $598 per FTE student.

And again, to determine the *true* cost of textbooks to students you must also deduct any sums they receive from selling their textbooks on the used book market. According to GAO, this can reduce student textbook spending by up to 50 percent.

Claim #2: Textbook prices are increasing at six percent per year.

> Page 4, paragraph 1: "*Between 1986 and 2004, textbook prices rose 186 percent in the United States, or slightly more than six percent per year (GAO, 2005). Meanwhile, other prices rose only about three percent per year (GAO, 2005).*"

Fact #2: The amount students *actually spend* on textbooks is increasing at a rate lower than the general rate of inflation, per Student Monitor.

By definition, the consumer price index (CPI) and producer price index (PPI) measure new book "rack rates." They do not measure actual student spending. To estimate total spending, we again refer to the Student Monitor and the Synovate surveys which also correlate well with actual industry sales data.

These two consumer surveys confirm important trends that are not measured by CPI or PPI statistics:

- **The rise of online textbook purchasing.** 28% of four-year students bought some of their textbooks online in Spring 2006, according to the Synovate survey data, up from 16% in Spring 2004
- **Greater share of used books.** According to Student Monitor survey data, 37% of student spending for textbooks in Spring 2006 went to used books, up from 35% in Spring 2004.
- **Declining total spending on textbooks.** Student Monitor reports a 1.7% decline in what four-year college students spent on textbooks between Spring 2005 and Spring 2006. Synovate reports a 0.6% decline.

These independent consumer studies prove that the average student is now spending **less** on textbooks, not more.

The decrease in student spending for textbooks is happening despite the shift of students to the sciences, where textbooks are longer and more complex. According to AAP sales data, Biology sales grew at an annual 6.6% rate between 2003 and 2005, vs. a decline of 12.3% for Computer Science (where most books are not in color).

Student Monitor's twice-yearly surveys show that the amount students are spending on textbooks is increasing at a rate far *lower* than the rate of inflation. In 2001/02, the average student spent $613 on textbooks. In 2005/06 they spent $644, an average annual compound increase of 1.2%. The inflation rate for the same period, as measured by the Consumer Price Index was 2.5%

The bottom line: publishing is a labor and intellectual capital intensive business, as is education in general. There are different measurements (price v. net student spending) and innumerable variables within the methodology used for each. One possible factor contributing to differences between the measures may be changes in the "mix" of books students are purchasing.

Claim #3: Faculty members do not know the price of the textbooks they order.

> Page 5, paragraph 5: *"individual faculty make their textbook choice... often with little regard to the cost of the textbooks."* And page 6, paragraph 2: *"A Connecticut Board of Governors for Higher Education study (2006) revealed that only 58 percent of that state's faculty were aware of the cost of the textbooks they selected for their courses."*

Fact #3: Information on textbook pricing is widely available.

Textbook prices are incredibly transparent to faculty and are becoming even more so because of the Internet. Faculty members can get pricing information from a publisher's marketing representative; their campus bookstore; online at special faculty Web sites provided by publishers; or by entering the title, author, ISBN, or subject and name of the publisher into any search engine. Of course, publishers do not set the actual retail prices of textbooks sold through any particular bookstore, so faculty would have to contact their campus bookstore to obtain the prices that will be charged to students locally.

Dr. Koch is certainly correct that faculty choose the textbooks and other learning materials used in their classrooms. They are, after all, the professional educators that parents, students and taxpayers pay and entrust to select the learning materials best suited to the education and success of students. With regard to the Connecticut study cited, this conclusion was forcefully contradicted in testimony given by Dr. David Walsh, president of the American Association of University Professors (AAUP) Connecticut Chapter and a faculty member at Western Connecticut State University.

Dr. Walsh stated, "…there is a general underestimation of the care with which most faculty make selections about the texts for their courses. I think it is a disservice to faculty members to believe that we don't know the prices of most textbooks in advance. We do." Continuing, he added, "I have never seen a college book catalogue in history, political science, economics or sociology that did not indicate the price of the book." Further, publishers' marketing representatives and Web sites, college bookstores that work constantly with faculty to develop textbook options and orders, and the Internet have all made the prices of new and used textbooks transparent.

Perhaps more significantly, it is distressing that the proposed Study Plan – and its initial presentation to the Committee – does not expressly include faculty participation. While it is surely true that finding "consensus" among faculty is difficult and individual faculty members will hold different positions on the issues discussed herein, they are key players in determining what course materials are chosen and how they are used.

Claim #4: Publishers release new editions more frequently than necessary to counter the used textbook market, and student's "economic welfare" would improve if new textbooks appeared less frequently.

> Page 10, paragraph 4: *"Because the unit sales of a new textbook are highest in the first year or two after it has been published, there is a tendency for publishers to push the development of new editions of textbooks that have sold well in order to render obsolete the inventory of used books that seriously reduces their sale of new books... And, page 11, para 2: "Some economists... argue that students.. are not greatly disadvantaged by the appearance of frequent new editions...However, even if one agrees... their [students] economic welfare still would increase if new textbooks appeared less frequently."*

Fact #4: The average length of time between textbook editions remained steady at four years between 1994 and 2004.

Revision cycles vary by publisher, by market demand and due to events such as new discoveries and technologies, major national and international occurrences, or other significant changes in a discipline such as the Sarbanes-Oxley Act. A nationwide study of faculty by Zogby International found that 80% of college faculty surveyed say it is important that the material in texts used for their courses be as current as possible. Data supplied by Follett, a leading bookseller, shows that new editions of textbooks were produced every four years on average between 1996 and 2004.

Additionally, the study plan fails to acknowledge that the revisions involve changes to content, pedagogy, and learning technologies aimed at improving both instruction and learning – improvements to help ensure students gain the greatest value from their college investment.

Finally, most publishers believe the competitive market would drive new textbook prices lower if used textbooks were less readily available because development costs are necessarily spread over anticipated sales.

Claim #5: Publishers provide "bundled" supplemental materials to support instructors and students – driving up the price of the textbook.

> Dr. Koch appropriately acknowledges (page 13, paragraph 1) that publishers have increasingly been called upon to provide instructor and student support materials – roles traditionally filled by colleges and covered by tuition and fees. He also affirms the veracity of publisher statements that *"increasingly diverse student bodies and faculty rosters encourage progressively more diverse textbook packages...The problem is that these packages are expensive to develop and this has driven textbook prices upward."*

Fact #5: Publishers offer nearly all items in a textbook bundle for sale a la carte.

Although we agree with Dr. Koch's assessment that publishers have increasingly been called upon to provide instructor and student support materials – roles traditionally filled by colleges and covered by tuition and fees. We are concerned that the Study Plan's discussion of "bundling" perpetuates the oft-cited claim that publishers "bundle" unnecessary accessories such as workbooks, CD-ROMs, and other items to drive up the price of the textbook.

First, in nearly all instances, publishers offer all items in a textbook "bundle" for sale a la carte. Second, faculties select the supplemental learning materials to be included in the textbook bundle, and booksellers, working with faculty, can choose to order and sell bundled components separately or not. Third, efficiencies of distributing materials as part of a set enable savings that may not be available when components are sold separately.

It also should be noted that in many cases where a la carte sales are not possible it is because the printed and electronic content were developed as integrated materials explicitly designed to work together, or third-party content owners require that their copyrighted works be sold "bundled" with the text. Fred Kleiner, Professor of Art History and Archaeology and Chairman, Art History Department, Boston University, highlighted this circumstance earlier this year when he testified that "no instructor of art history or music regards the digital images and recorded music that are packaged with art and music textbooks as optional ancillaries. Opponents of bundling would say, no doubt, that if the instructor considers those items essential, she or he should order them separately for the students. But they cannot. In almost all cases, the copyright holders of the recorded music and of the photographs have granted permission only to package the music and art with the textbooks. The rights holders explicitly prohibit the sale of the CDs as stand-alone items. If all textbooks with CDs...had to be made available as separate "unbundled" units, it would mean that no art history or music student...could obtain the essential art and music CDs at any price."

Claim #6: Bundled textbook/learning packages do not have a statistically significant impact student learning and performance.

> Page 13, paragraph 5: **"***What is also unknown at this stage is whether students who purchase only some of the recommended items in a textbook package achieve more or less in classes than students who opt for the entire package. I.e., do students learn more or less when they have access to bundled textbook and learning packages? If any conclusion is merited, and it is tentative, it is that such packages do not have a statistically significant impact on student learning and performance."*

Fact #6: Supplemental materials, including new technology-based learning tools, improve students' success rate.

Eight in ten professors surveyed in a recent Zogby International poll say their less-prepared students would do significantly better in introductory-level courses if they spent more time using supplementary materials such as study guides and online quizzes. More than three in four say that supplemental materials available in their course of instruction, including online and digital supplements, "clearly enhance most students' learning." Equally important, two in three professors say that supplemental course materials help retain students who might otherwise fail to complete courses.

In addition, studies show new technology-based learning tools improve students' success rate. At the University of Alabama, the passing rate for students taking an intermediate algebra class doubled, from 40 to 80 percent, after the class was redesigned to rely more heavily on publisher-produced supplemental materials and instructional software, such as interactive tutorials and online practice exercises. A study by the National Center for Academic Transformation shows that students, specifically under-served students, actually perform better when they use technology for their course work.

Finally, the Study Plan's conclusion that bundled learning packages do not have a statistically significant impact on student learning appears to contradict directly its earlier conclusion (page 12, para 3) that "there is some validity to the view that increasingly diverse student bodies perhaps require increasingly diverse textbook and learning packages. Three prestigious higher education organizations reported recently that 40 percent of four-year college students and 63 percent of two-year college students must take at least one-remedial course when they enter college (Schmidt 2006)."

Claim #7: Overseas pricing differentials are improper and publishers should be subjected to a government "probe."

> Page 6, Paragraph 7: *"It's also important to note that many differences exist with the overall group of 17.66 million student customers. They don't all reside in the same location and their financial statuses differ dramatically; they vary in their knowledge of textbook markets, their mobility and their ability to utilize the Internet; and, of course, they don't all take the same college courses. Publishers and bookstores are profit-maximizers; they recognize these differences and take advantage of them. As a consequence, significant geographic price differentials often exist in the prices charged students for identical textbooks (Clay and Tay, 2001)." Also, Study Plan Page 2, Paragraph 4: "Regarding promising legislative and/or regulatory solutions... Ask the Bureau of Competition of the Federal Trade Commission and the Antitrust Division of the Department of Justice to probe the legality of various publisher market activities, for example, their attempts to prohibit the re-importation of textbooks from foreign countries and their maintenance of huge international disparities in the prices of identical textbooks."*

Fact #7: Pricing materials according to local market factors is a common and legal practice across a broad range of industries. Textbooks sold overseas help to hold down the cost for American students.

As GAO affirmed in its 2005 report, pricing products to reflect local market conditions is a common and legal practice. Members of many industries, especially those involving intellectual property such as music and movie industries, are constrained by local market factors and price accordingly. The alternatives are to not sell your products in foreign markets, or to do so at prices that will result in few sales but result in outright piracy of your works. It is important to note that in the textbook market, any incremental overseas sales help defray publishers substantial fixed costs – costs that would otherwise be borne entirely by U.S. students.

The Study Plan subsequently acknowledges (Page 18) that calling into question price disparities "...in the textbook arena would call into question thousands of international pricing arrangements in a multitude of industries and therefore would truly open the proverbial can of worms." The Committee should reject this inappropriate recommendation.

Claim #8: Relatively few textbooks are offered as lower-cost digital e-books.

> Page 15, paragraph 3: *Currently, relatively few textbooks are available in entirety in an electronic form, for example, on a CD or DVD, or via the Internet. In 2005, ten institutions, including Princeton, Utah and Oregon, began to use textbook wholesaler MBS to offer electronic versions of some textbooks at about two-thirds of the price of print copies (Buss, 2005). Elsewhere, Pearson launched SafariX Textbooks Online, consisting of 300 online texts available on the Internet at approximately one-half the price of new print version.*

Fact #8: AAP member publishers offer more than 3,000 e-books. Publishers are continuing to expand their e-book product offerings, but market demand for e-books remains extremely low.

Currently AAP member companies offer in excess of 3,000 digital versions of the traditional textbook. Pearson's SafariX Textbook Online initiative mentioned in the Study Plan alone has grown to include approximately 800 of Pearson's most popular titles.

Claim #9: Federal Student Aid Encourages Textbook Price Increases.

> Page 8, paragraph 4: **"...** *need-based financial aid formulas usually include textbook costs. When textbook prices increase, financial aid also increases. The result is that colleges and the federal government tend to facilitate textbook price increases by injecting additional need-based financial aid after textbook prices have increased. It's worth noting that a roughly analogous situation exists in some medical care markets where rapid medical care price increases have been validated by insurance coverage that expands to meet the price increases. The effect in both cases (textbooks and medicine) is to encourage even more rapid price increases."*

Fact #9: The link between textbook price, actual student textbook spending (e.g. "net" textbook cost to student) and student financial aid support is not established.

It is well-documented that the cost of college attendance has outstripped actual federal student aid. The reality is that students have little aid left to cover their textbook costs. This may be an issue the Advisory Committee would want to research further. In addition, the Committee might want to consider alternative approaches aimed at giving students greater flexibility to use any aid they do receive to purchase their course materials more easily from a variety of vendors.

Claim #10: Large numbers of students do not purchase textbooks due to price.

> Page 6, paragraph 5: *"up to 40% may not purchase a textbook for at least one of their classes (Kinzie, 2006). Most Campus bookstores, however, report that only about 20 percent of the students in a typical class apparently do not purchase a textbook."*

Fact #10: The most common reason students give for not buying a required textbook is that the professor does not use the textbook.

Although the Study Plan does not explicitly state that students do not choose textbooks due to price, in the context of the discussion that inference could be drawn. Two clarifying points are worth noting:

Regarding the number of students not buying the textbook, we believe the Study Plan's figures aren't entirely unreasonable. Another way to express this same data point is that 86% of all required textbooks are purchased, according to the independent research firm Student Monitor. Independent data from Synovate would put this number even higher, to 91%. This is a statistic that hasn't shifted dramatically in recent years, and, per Student Monitor, is the same for both public and private colleges.

Regarding why students choose not to purchase a textbook, in Student Monitors' research, the reason most often given for not buying all texts is the "professor doesn't use the book." Naturally, if a book is "required" but not used, then it surely makes sense that a student should not feel the need to buy it. Whether this makes for a better education, of course, is subject to debate. One piece of speculation here: The dissonance between a book being "required for the course but not used by the instructor" may be a result of an instructor, perhaps an adjunct, having had the "required" book chosen for him or her.

Further, a recent Zogby International study based on a nationwide survey of faculty reports: 80% of respondents agree that "less-prepared students would do significantly better in your introductory courses if they spent more time reading the textbook."

Claim #11: Textbook market is vertically integrated and publishing is oligopolistic.

> Page 9, paragraph 1: *"The textbook market is vertically integrated in three major stages. In stage one, publishers produce books, which they typically distribute to wholesalers, who sell new and used books to college bookstores. Textbook publishing is oligopolistic – five firms dominate the college textbook publishing..."*

Fact #11: Textbook publishing is an extremely competitive industry.

First, Dr. Koch is mistaken in his assertion that publishers sell primarily to wholesalers; they sell primarily to *retailers*. Second, it is inaccurate to characterize the publishing industry as "oligopolistic," given the tremendous competition that exists between publishers, the number of publishers in the market, and Dr. Koch's subsequent acknowledgement that the barriers to entry for new firms are not overwhelmingly high. There are dozens of recent press articles about offerings and programs from any variety of publishing competitors under any variety of new business and/or pricing models. For one example, see Randall Stross' August 27, 2006 *New York Times* article, "Words of Wisdom vs. Words from Our Sponsor."