eLending position paper

Introduction

Neither libraries nor publishers are satisfied with the license terms currently applied to books in eFormats. We are not in agreement on what availability models and prices are fair, in part because we are still breaking new ground with these formats, their capabilities, and how to measure success. This position paper proposes a single licensing model that aligns with print but optionally enables the unique capabilities of eLending: perpetual licenses and concurrent use.

The proposed model moves us toward:

- improved flexibility which will help libraries better support the healthy culture of reading valued by both libraries and publishers
- increased efficiency for libraries for whom each model creates incremental work
- no significant cost increase for libraries or revenue decrease for publishers

In addition to introducing the model, the paper describes the evolution of license terms since 2011, analyzes the impact of the model changes on collections, and suggests how adjustments might benefit both publishers and libraries. Finally, it submits recommendations for moving forward.

Model summary

If we agree that print lending neither advantages nor disadvantages libraries and publishers unduly, then we can approach a model for eBooks that uses print as a guide.

We propose that a "base" model for a copy of an eBook functions as follows:

- The cost of a single copy will be the same as the cost of the eBook at retail, about $15.
- The number of times that a copy can circulate will be limited to the approximate number of times a hardback copy would circulate before wearing out, about 30 – 35*.
- Libraries will have to pay more, over and above these base terms, in order to take advantage of the new capabilities enabled by eFormats:
    - Perpetual licenses: an eBook copy theoretically can exist forever, unlike print books which wear out after a certain number of circulations. A fair cost for a perpetual license will align with the average number of times a library would have repurchased a single copy. I surveyed nine libraries and consortia of various sizes for their average number of checkouts per title and found the average to be 143, indicating that a perpetual license should cost about 4 times the amount of a license allowing 30-35 consecutive checkouts.

    - Concurrent use: unlike print, a single copy can theoretically serve unlimited numbers of readers at the same time. Because library wait time is one friction point that can drive retail sales, it is reasonable to expect libraries to make up for lost retail sales difference if enabling concurrent use. As such, it may be too expensive for most libraries. However, publishers and libraries can work together on experiments that leverage concurrent use scenarios in ways that both increase readership and sales. These are discussed further below.
- Ideally, all titles will include all three options: a metered access license, a perpetual license, and packages of concurrent use checkouts as long as all options are priced such that neither publishers nor libraries are disadvantaged.

Note: this position paper focuses primarily on eBooks, not eAudiobooks. Recommendations for fair pricing and licensing on eAudiobooks are pending.

*Libraries do not specifically track the number of times items circulate before being withdrawn due to condition, so these numbers are estimates based on the average circulation at the time of withdrawal for any reason (including the need to make room on the shelves) and the circulation count at which we pull still-circulating items to review for condition.

Perpetual license

Expecting a perpetual license to cost the same as the base price of a single copy is unfair to publishers. When we wish to purchase an item that we want available in our collection for many years, we should expect to pay approximately the amount we would pay to keep a print copy in the collection over many years.

Of course, this depends on the title. For a popular print book, we might purchase replacement copies in print 4-5 times. For example, *Rules of Prey*, by John Sandford, is the first book in a long series. *Rules of Prey* was published in 2005 and has been in continuous circulation at my library since then. Since its release, we have probably repurchased the book 3-4 times.

Alternately, some books are important to include in library collections but do not circulate frequently and therefore do not need to replaced so often. For example, the *Tao te ching*, which my library purchased in 1992, has circulated 48 times, and is probably due to be replaced, but after we have done so, we can expect the new copy to last another 28 years.

In order to determine a fair price for a perpetual license, we can review the circulation on the eBooks in our collection and calculate how much we would have paid to retain them on average had they been metered at 30 - 35 circs.

A survey of nine libraries and consortia, with collections ranging in size from 17,532 to 115,899 titles, found that the average circulation per title is 143. If a metered title allows 35 circulations, then a perpetual use title can reasonably cost about four times the metered title, or $60.00.

(Notably, my consortium has paid $4,198,332.42 for 53,172 titles, which works out to an average of $81.36 per title and $45.43 per copy, well above retail. So, we have already paid a factor of the retail price for titles that are currently almost entirely metered.)

Currently, no major publishers offer a perpetual license on eBooks. eAudiobooks from Macmillan and HarperCollins are currently available on a perpetual license at a base price of $69.99 and $74.98 respectively, which is approximately three times the Audiobook on CD price.

Concurrent use

Some libraries and publishers are experimenting in small ways with simultaneous use models or cost-per-circ models. However, libraries should expect this capability to be expensive, because offering on a popular title removes the wait list friction that we believe drives approximately 8% of retail sales per a patron study by Jefferson County Library in Washington State. If we are to offer this capability with the goal that publishers will not lose retail sales, we will have to expect to make up to them the sales they would have made on a title with the usual sequential use licenses.

A detailed analysis of a fair price for concurrent use is pending.

Publishers may wish to employ concurrent use scenarios for new authors as a marketing tactic, but we will discuss this further below.

History of license models and pricing

To understand exactly how the various models developed, I pulled a set of purchase order detail reports spanning the last ten years from OverDrive Insights. I included at least one purchase order from each month in the time period and the final set totaled 11,357 purchases of titles.

Notes:

- This is a fraction of the total number of purchases for the consortium, so the average numbers are estimates. It is not currently possible to pull all of the data from Marketplace, so I have asked OverDrive to pull it for me. They have not yet agreed to do so.
- The analysis focuses on prices and license terms from the Big Five publishers since they represent the bulk of our collection

In brief, the average price per copy has tripled in nine years at the same time that license models have become much more restrictive. In 2011, the average price per copy from the major publishers was $13.37, offered with a perpetual license from most publishers. In 2020, no major publishers offer a perpetual license, and the average cost per copy is $39.96.

Roughly the timeline is as follows:

- 2011: Most major publishers were offering eBooks to libraries for sale at approximately retail prices on a perpetual license (although some did not make their full catalog available at that time). As discussed above, the combination of retail pricing for a perpetual license was unfair to publishers.

- 2013: Prices rose to a multiple of the retail price, which aligns with the proposed model that a perpetual use license should cost approximately 4 times retail. In other words, prices and license terms were relatively reasonable.
- 2018: Publishers switched license models from perpetual use to metered access but did not lower their prices. A combination of metered access at prices at 2-3 times the price of retail is unfair to libraries.

Average price per copy

eBOOKS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Average
Hachette	**$13.30**	**$13.57**	**$38.14**	**$9.49**	**$16.66**	**$67.38**	**$56.47**	**$67.85**	**$61.64**	**$59.86**	**$40.44**
MA: 24 mo									$62.76	$59.86	$61.31
MA: 26 ckos				$9.49	$9.49	$8.99	$12.21	$11.74	$14.24		$11.03
One copy/One user	$13.30	$13.57	$38.14		$21.44	$68.57	$62.25	$71.86	$67.69		$44.60
Harlequin	**$7.41**	**$8.37**	**$7.77**	**$7.57**	**$9.06**	**$8.45**	**$9.24**	**$9.18**	**$9.80**	**$12.84**	**$8.97**
MA: 26 ckos					$8.31	$8.45	$9.24	$9.18	$9.80	$12.84	$9.63
One copy/One user	$7.41	$8.37	$7.77	$7.57	$18.49						$9.92
HarperCollins	**$14.30**	**$21.33**	**$9.93**	**$12.84**	**$11.11**	**$11.68**	**$12.99**	**$12.95**	**$13.01**	**$12.23**	**$13.24**
MA: 26 ckos			$9.81	$12.74	$11.11	$11.68	$12.99	$12.95	$13.01	$12.23	$12.06
One copy/One user	$14.30	$21.33	$17.38	$18.21							$17.81
Macmillan					**$46.39**	**$45.45**	**$47.00**	**$46.04**	**$43.64**	**$47.56**	**$46.01**
MA: 24 mo									$42.86	$47.56	$45.21
MA: Earlier 52 ckos/24 mo					$46.39	$45.45	$47.00	$46.04	$43.72		$45.72
Penguin	**$13.70**	**$14.32**	**$12.75**	**$13.22**	**$14.26**	**$34.56**	**$42.63**	**$54.44**	**$50.62**	**$38.68**	**$28.92**
MA: 12 mo			$12.88	$13.22	$14.24					$25.00	$16.33
MA: 24 mo								$62.81	$50.62	$55.00	$56.14
MA: Earlier 36 ckos/24 mo								$26.55			$26.55
One copy/One user	$13.70	$14.32	$7.49		$28.74	$34.56	$42.63	$53.18			$27.80
Random House	**$16.70**	**$28.13**	**$35.25**	**$43.85**	**$50.81**	**$53.23**	**$53.63**	**$51.96**	**$45.12**	**$36.56**	**$41.52**
MA: 12 mo										$26.39	$26.39
MA: 24 mo								$47.78	$53.07	$52.24	$51.03
MA: Earlier 25 ckos/24 mo							$4.99	$8.79	$7.35	$9.32	$7.61
MA: Earlier 36 ckos/24 mo									$12.68		$12.68
One copy/One user	$16.70	$28.13	$35.25	$43.85	$50.81	$53.23	$54.18	$55.13	$18.82	$21.48	$37.76
S&S	**$14.83**	**$15.78**	**$13.57**	**$15.98**	**$15.70**	**$14.68**	**$15.99**	**$15.38**	**$26.86**	**$44.26**	**$19.30**
MA: 12 mo					$15.69	$14.26	$15.50	$15.37	$15.42		$15.25
MA: 24 mo						$31.49		$16.49	$44.81	$44.26	$34.26
MA: 26 ckos			$25.00								$25.00
MA: Earlier 52 ckos/24 mo						$50.00	$50.00				$50.00
One copy/One user	$14.83	$15.78	$12.43	$15.98	$16.18	$27.99					$17.20
Average	**$13.37**	**$16.92**	**$19.57**	**$17.16**	**$25.48**	**$37.29**	**$37.49**	**$40.81**	**$39.61**	**$39.96**	**$28.34**

Why fair prices matter

In one way, a “fair price” is simply what a business is prepared to offer and what a customer is prepared to pay, the fair market value. In that sense, the existing prices on eBooks are “fair prices.”

However, the realities of limited budgets and patron behavior do mean that an increase in publishers’ prices does not necessarily translate into an increase in revenue for that publisher (which presumably is the goal).

As such, it may be useful for publishers to understand how library budgets and purchasing work so that they can anticipate the implications of raising prices or adding limitations.

Library budgets are often limited by law

First of all, public libraries are government entities which very often have restrictions on the amount of revenue they can generate. In Whatcom County, WA, the library system revenue comes from a property taxing district which is not permitted to increase annually more than 1%, regardless of how much property values rise.

To put this another way, the average cost of an eBook from a major publisher tripled between 2011 and 2020. In that time, my library’s revenue will have increased no more than 11%.

By comparison, the cost of print materials for adults increased more or less in step with library budgets:

Adult titles	2012	2013	2014	2015	2016	2017	2018	2019	% change
Trade hardcover									
Fiction	$26.63	$26.69	$26.82	$26.98	$25.75	$26.00	$26.58	$29.10	9%
Nonfiction	$27.58	$27.74	$28.00	$28.09	$28.83	$29.42	$29.92	$35.07	27%
Trade paperback									
Fiction	$15.51	$15.73	$15.63	$16.06	$15.83	$16.19	$16.19	$17.46	13%
Nonfiction	$20.35	$20.59	$20.75	$20.79	$20.72	$20.75	$20.81	$22.62	11%
Mass market paperback	$7.67	$7.66	$7.66	$7.69	$9.18	$9.32	$9.00	$7.43	-3%

Source: https://www.slj.com/?global_search=average+prices&page_number=1

Because many library patrons have switched from using print materials to eMaterials, we have shifted money from the print budget to the eMaterials budget. This tactic has worked to address the organic growth in eLending we have seen, as patrons migrate from print materials to eBooks, but when organic growth occurs in concert with increased prices or limitations, maintaining a robust online collection begins to become unsustainable, almost always to the detriment of the midlist.

Why libraries may be important to new and midlist authors from the traditional publishers

Note: Before beginning this discussion, I wish to acknowledge the narrative promoted by Macmillan, but originating with Amazon, suggesting that library eLending hurts author income. The narrative is mistaken, and those who are interested to know more may review a discussion in the appendix. In fact, we propose that libraries may be critical to the success of new, niche, and midlist authors for two reasons:

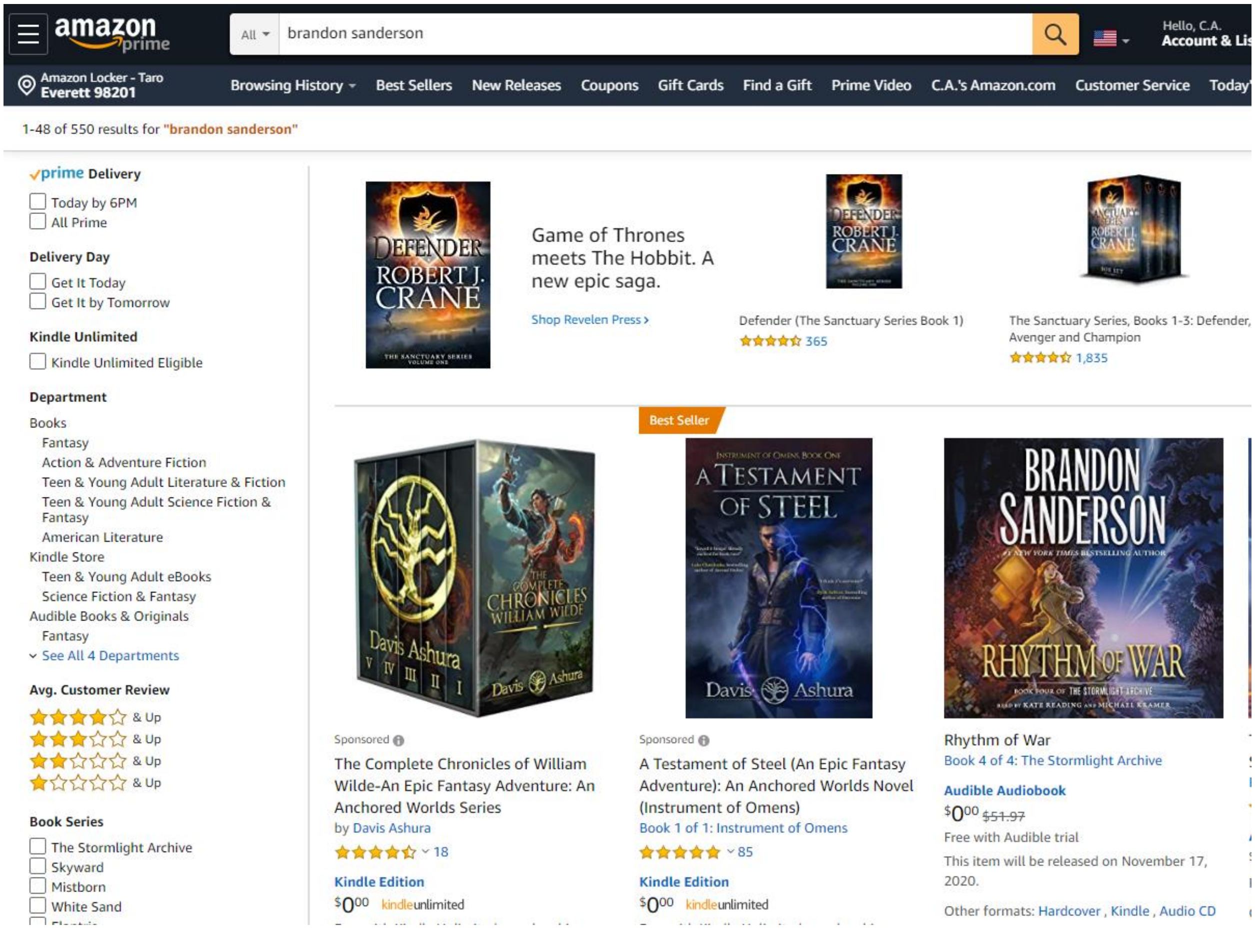
- Discoverability
- Readership

Discoverability

Author discoverability -- helping readers find authors -- has always been a challenge for publishers, but it has become exponentially more challenging for traditional publishers in the age of Amazon, simply because of the sheer number of books – millions – that Amazon has made instantly and inexpensively available in the eBook format.

According to an *Atlantic* article from August 2019, traditional publishers each issue 1,500 – 2000 books per year. By contrast, Amazon has published millions of them on the Kindle Direct Publishing platform and it sells them both as individual titles and in a subscription package, Kindle Unlimited. Separately, it publishes approximately 1,100 titles per year through its Amazon Publishing division and markets those books to subscribers, often discounted or free for a limited time. As a result, sales on some Amazon Publishing titles have in some weeks outpaced New York Times mega-bestsellers such as *Where the Crawdads Sing.*

Given the enormous number of titles available to readers in combination with Amazon's marketing reach, traditionally-published authors have a much more difficult time getting readers' attention now than they did 11 years ago when Amazon launched Kindle Direct Publishing. In fact, because Amazon advertises on behalf of its own authors, it actively can impede discoverability. For example, an exact-match author search on Amazon for Brandon Sanderson, an award-winning fantasy author for Tor, returns five products from two separate Kindle Direct Publishing authors. The first book written by Brandon Sanderson is 6th on the page.



Because discoverability on Amazon is so challenging, publishers who are developing the careers of emerging authors may wish to make more overt use of libraries, because readers use libraries overtly for the purpose of discovery, and because libraries are designed to help them.

According to a generational readership study conducted by *Library Journal* and funded by several publishers, 42% of Millennials use the library to “take a chance on a new author or book I never heard of” and over 75% of Generation Z, Millennials, and Generation X survey respondents reported purchasing a book by an author they first encountered in the library.

The use of the library to discover new authors is echoed in the 2012 study from Pew “Libraries, Patrons and eBooks”, which states:

> Many of our online respondents described how the library fit into their book discovery process as a way to “try out” new authors and genres before committing to a print purchase. “I like to read new-to-me authors by borrowing from the library,” one said. “If I enjoy the book, I will then purchase it.”

The Pew study does not quantify the number of people who purchase books from authors they discover in the library, but another study shows a that a significant segment of library users are also avid book buyers. A 2018 Canadian study of 14,149 people found that approximately 29% of the people who reported borrowing from the library the past year also purchased a book within the past year. The study also found that those people who both borrow and buy books purchase more books on average than book buyers who do not use the library. In other words, there seems to be a segment of "power readers" who purchase significant numbers of books and also use the library, perhaps for discovery.

The library helps readers find authors overtly in several ways:

- Libraries dedicate millions of dollars a year to eBook collections to ensure that their readers have the same convenient instant access to eBooks that Amazon offers.
- Librarians work to add metadata to every title, maximizing the chances that the readers searching the online catalog find authors that will appeal to them.
- Readers looking for new things to read are never distracted by ads when using library catalogs.
- Library staff are book experts who have book discovery conversations with readers every day in almost every community in the U.S. and Canada.

Discoverability may be especially important to the success of new authors of color that traditional publishers plan to sign and promote. A 2015 study from Pew, found that

> "Americans use of public libraries and generally positive attitudes about them cut broadly across all demographics surveyed. However, for lower-income Americans and those who are members of communities of color, libraries have a special role..."

The study states that 50% of African-Americans surveyed over the age of 16 had checked out a print book in the library in the last 12-months, while the percentage for Latinx survey respondents was 58%. (The number for white respondents was higher, which suggests that African-American and Latinx library users might check out more books if the books available to them are more representative.)

Regardless, if the demographics of library use are more diverse than the demographics of people who are able to purchase books (as seems likely), the library may be a place where diverse authors can build the important readerships they need in order to support themselves over a career.

Readership

We know from multiple studies that reader recommendations are an important catalyst for book purchases. According to a 2013 Bowker study commissioned by Penguin Random House, recommendations from friends and relatives, are the #1 reason people buy eBooks. Similarly, 60% of the millennials in the LJ study reported that they find out about the books they read from friends or relatives. Finally, according to Pew Research in 2012:

> *Generally, book readers of all age groups depend most on family, friends, and co-workers for book recommendations—some 68% of Americans under age 30 find out about books this way, as well as 64% of older adults.*

In other words, every day readers do more to help other readers find new authors than any overt marketing a publisher might do, including advertising, special displays in book stores, etc. Ordinary readers even do more than influencers such as celebrity book club leaders or industry experts such as bookstore salespeople or librarians. In order for authors to generate the recommendations that drive their sales, they need to build a base of readers, including the kinds of readers that use the library. More readers lead to more recommendations, which lead to more sales.

If we agree that any given book will have more potential readers than buyers, then the library has an important role in supplying authors with millions of readers who might not be able or willing to purchase books, but who are happy to recommend them to friends and family who will be interested. These reader recommendations are likely to be especially important to midlist and niche authors, since a publisher's marketing budget tends toward emerging authors, best-sellers, or award-winners.

Higher prices result in smaller collections skewed away from the midlist

If we agree that discoverability in library collections is valuable to authors in inverse proportion to the authors' popularity, then it is worth looking at how higher library eBook prices work to disadvantage these authors.

A simplified example demonstrates how this works:

	2011	**2020**
Library budget	$100,000.00	$111,000.00
eBook cost	$15.00	$45.00
Bestsellers per year	52	52
Copies per best seller	20	20
Spending on bestsellers	$15,600.00	$46,800.00
Budget for midlist	$84,400.00	$64,200.00
Midlist titles purchased	5627	1427

Let us say that a library in 2011 has $100,000 to spend for a year on eBooks that cost $15 each. Let us say likewise that each week, a best seller comes out and the library knows it will purchase 20 copies each to ensure that patrons will not have to wait longer than four months for a title.

The library thus spends $300 on each best seller for a total of $15,600 and has $84,400 to spend on a broad collection including new authors. Assuming one copy of each book, the library can buy 5,627 new midlist books.

Now, in 2020, prices have tripled to $45. The library's budget has grown 11% to $111,000. And there are still 52 best sellers per year. If the library buys 20 copies each, the total will be $46,800, leaving only $64,200 for the general collection. At $45 per copy, $64,200 will allow the library to buy 1,427 new midlist books, 25% of what it was able to purchase in 2011.

Theoretically, a library could shift some money away from the best sellers and allocate it to the midlist by purchasing fewer best-selling titles or fewer copies, making patrons wait longer. However, the patrons who want the best sellers are a "known quantity." Most libraries work hard to maintain their midlist, but few libraries are willing to extend the wait time on books with known demand for the sake of maintaining a mid-list collection with demand that is hard to anticipate.

In sum, price increases out of proportion to budget increases cause total collection sizes to shrink and collection proportions to skew toward best sellers rather than the midlist. The authors who benefit most from being part of a library collection are increasingly underrepresented.

Lowering prices will not lower publisher revenue

Because libraries are government institutions, we budget annually for the amount we intend to spend on a collection and we buy as many books as we can up to that amount. As such, publishers who lower prices are unlikely to see a corollary revenue decrease. (Unfortunately, revenues may decrease in 2021 because of recession, however.)

Recommendations for adjustments to eLending

Each recommendation, including the benefits to both publishers and libraries, are discussed in detail below.

- Publishers who are currently using a time-limited metered access model such as 24-month expiration can benefit their new and midlist authors by moving to a metered access model limited by checkout count.
- Publishers can optimize the discoverability of their midlist by offering both metered access and perpetual use models for all titles.
- Publishers should restore fair pricing. A fair price is one that aligns with print where eLending limitations also align. In other words, an eBook that can be lent one reader at a time to approximately 30-35 readers (like print) should cost about as much as a print copy.
- Libraries and publishers should work together to experiment with cost-per-circ and simultaneous use in ways that ensure that author income is not negatively impacted by instant access.
- Publishers who align on a single flexible access model will do a courtesy to libraries who are financially impacted by each new model.
- eBook distributors should pass along discounts to libraries like print distributors do.

Migrating away from time-bound access models

Of the Big Five publishers, only HarperCollins uses a metered access model based on the number of readers an item can have before it expires. The other publishers expire content after 24 months.

Benefits to publishers

If we accept the premise that libraries are beneficial to the discoverability of new and midlist authors (in inverse proportion to their popularity), then a checkout-based access model makes more sense than a time-limited access model, because it allows a less-popular title to remain in the collection longer and grow in popularity.

A title by a popular author (who needs no help with discoverability) will check out continuously during its 24 months of availability and will reach approximately 22 - 25 readers per year, assuming a 2-week checkout period with extra time for items to be held between patrons. New and midlist authors, alternatively, average about 14 checkouts per year at my consortium. After two years, when their ebooks expire, they will have been discovered by about 28 readers. If the books are allowed to circulate up to 35 times, then 25% more readers will encounter these authors before the eBooks expire.

Importantly, publishers should not assume that libraries will simply repurchase midlist books we have purchased before. In general, if a book is good enough to be selected in the first place, it is good enough to keep, but the increase in cost per unit and the policies of expiration do not allow us to maintain an eBook midlist like we maintain print.

Benefits to libraries

Our current print workflows center around circulation as the primary metric we use to determine what to keep in the collection. A 30- or 35-checkout MA model will allow selectors to use the same criteria to evaluate the books in the collection, regardless of format.

We will be better able to offer a robust, interesting selection of midlist and new authors for a longer period of time without additional cost.

Migration toward offering multiple models for every title

Ideally, every title on offer will have:

- A metered access model at 30-35 circulations for a price consistent with retail
- A perpetual use model at a premium price
- A way to purchase concurrent use packages at a price that does not disadvantage authors or publishers

Library selectors note that different kinds of books have different "life spans" and would like to optimize our collection spending accordingly. A "one size fits all" model, which tends to constrain library purchases related to a few bestsellers, can place artificial constraints on midlist titles that libraries want and that publishers want libraries to have.

For example, some publishers offer eAudiobooks with a perpetual license at approximately three times the cost of retail. With best-sellers, this is an easy choice for libraries who know that they will want the item in the collection for years to come. However, most of the books available to libraries are not best sellers and the high price on a perpetual license is a constraint.

For example, let us say that an eAudiobook is only available on perpetual license and costs $75. If a library has $75,000 to spend on new or midlist authors, then it can buy only 1,000 titles. Alternatively, if the title is available at a retail price of $25 for approximately 30 - 35 circulations, then the library can opt to purchase up to 3,000 different titles.

We can enable both a metered access and a perpetual use model immediately, since both are well-understood. With concurrent use packages, libraries and publishers may wish to experiment and understand better how to implement and price it fairly before enabling it for every title.

Benefits to publishers

For most of the books that libraries purchase, the selectors do not know at the time of purchase how long they will want items in the collection. A lower-cost, metered option enables libraries the budget flexibility to purchase many more "unknowns," growing the base of authors who may have little marketing behind them and can truly benefit from discovery by library readers.

Additionally, offering a flexible model will make publishers more competitive when it comes to library purchases. Since library budgets are limited, there are always more books that we want than books we can buy. At present, we often make purchasing decisions based on how favorable the purchasing model is to us. For example, we have the money to buy extra copies of an eAudiobook best seller and candidates are

- An eAudiobook from Macmillan, at $69.99 for a perpetual license
- An eAudiobook from Simon & Schuster at $59.99 for a 24-month license

We obviously will choose Macmillan because it's a better value than the Simon & Schuster title.

Benefits to libraries

A metered access title enables us the flexibility to explore new authors and develop our midlist collection.

For the books we know in advance that we will want in the collection for years, a perpetual use option relieves the management overhead that metered access requires.

Migration toward prices that align with print where license terms also align

As readers often inform libraries, placing print-like restrictions on eBooks is somewhat arbitrary. However, it is an important constraint at a time when we are still exploring together how to lend eBooks and use their new capabilities in ways that benefit both libraries and publishers.

For many years, we worked successfully within these constraints and have been able to make eLending an important part of the reading ecosystem. However, since 2018, the Big Five publishers have increased constraints such a way that libraries are forced to spend more money on fewer books. We wish to restore the (relatively) fair pricing that was in place between 2013 and 2018, with increased flexibility with the models.

Benefits to publishers

As discussed above, lowering prices will not decrease revenue due to the way that library budgets work. In addition, lowering prices will enable libraries to buy more books from new and niche authors who can benefit most from the discoverability a library enables.

Benefits to libraries

Very simply, we will be able to buy more books and better fulfill our obligation to provide a wide range of informative, enriching material.

Publishers who align on a single flexible license model will do a courtesy to libraries, which are financially impacted by each new model

In November 2019, Macmillan implemented a new eLending model with the following terms:

- During the first 8 weeks of publication, a library or consortium could purchase a single copy perpetual use copy of a title. (Libraries with Advantage plans could also purchase a single copy)
- After the first 8 weeks, libraries could purchase unlimited numbers of metered access copies with a 24-month limitation.

The model created enormous cost for libraries in three ways.

- We paid for its implementation. OverDrive and the other eBook distributors who work with Macmillan were required to channel development and testing resources to implement the licensing model. But libraries pay distributors, not publishers. We paid not only for the cost of the model but the opportunity cost of features that had to wait while Macmillan's model was implemented.
- The complexity of the model required many library selectors to add tasks to work around the 8-week deadline. Hundreds of libraries did not formally boycott Macmillan but simply found it easier to buy none of their books or only to buy bestsellers.
- Hundreds of patron-facing staff had to be trained to explain to complaining patrons why Macmillan eBooks were almost completely unavailable at the time of release.

Admittedly, the Macmillan model was unusually complex. However, any new model creates new work for libraries. At present, my consortium selectors routinely deal with 6-7 different purchasing models.

Benefits to publishers

Selection librarians are book experts. It is beneficial to publishers to enable these experts to focus on books rather than focusing on how best to purchase books. Complexity in purchasing will lead to scenarios in which selection librarians purchase best sellers and do not take the time required to find midlist, new or niche titles from the publishers who require too much work.

Benefits to libraries

Simply put, we will be able to spend more time exploring what to buy in order to grow and diversify our collections.

Libraries and publishers should work together to experiment with cost-per-circ and simultaneous use in ways that ensure that author income is not negatively impacted by instant access

If we accept the assumption that a presence in a library collection is beneficial to midlist, new and niche authors, then there are many ways in which libraries and publishers might find win-win situations working with simultaneous use scenarios.

For example, a publisher with a midlist mystery series or romance series imprint might wish to explore enabling a low-cost simultaneous use license on the first book in each series. Offering simultaneous use access to the first entry in a series (but not the following entries) will create a scenario in which a reader discovers the first entry without the friction of a wait time, but when s/he finds the second entry, a wait time is probable.

This benefits publishers in two ways:

- Readers will discover authors and series they otherwise were unlikely to encounter
- Some readers will purchase titles in the series rather than waiting for a library copy

Publishers who want to build readership for new authors might also consider making their books widely available under inexpensive simultaneous use licenses for Community Reads events, book club license, or classroom kits.

Because simultaneous use is one way in which we are truly breaking new ground, it behooves publishers and libraries to try experiments, share the results, and continue together to cultivate a rich culture of reading with this relatively new format.

eBook distributors should pass along discounts to libraries like print distributors do

This paper has focused primarily on publishers, but it is important to note the existence of third parties that also profit like publishers from associations with libraries. Distributors such as OverDrive, RBDigital, and 3M Cloud Library are in fact the recipients of revenue from libraries buying eBooks, and that publishers are the recipients of a portion of what libraries pay to the distributor.

Other book distributors, such as Baker & Taylor and Ingram, purchase print materials at approximately 50% of the list price and sell to libraries with a ~40% discount off list (depending on the contract), retaining 10%. eBook distributors like OverDrive also purchase books at wholesale prices, but do not pass along the discount to libraries.

We believe that eBook distributors, like print distributors, purchase books from publishers at approximately 50% off. In other words, for every $50 libraries spend on an eBook, OverDrive receives approximately $25, which means there is no incentive for OverDrive to control publisher price increases or implement features that would help libraries control costs.

The landscape is complicated by the fact that OverDrive, which was a virtual monopoly before being acquired by KKR, is now one and the same with RBDigital, one of its two primary competitors. So, competition will not keep OverDrive's prices down.

If OverDrive were to begin offering discounts, that would be one way to show good faith to libraries, which otherwise cannot sustain the high price/high restriction environment. Libraries' options, if they cannot pay, are:

- Reduce patron service levels
- Buy fewer books
- Alternatives such as DPLA marketplace/SimplyE
- Stop offering eBooks to library patrons

While the last option sounds drastic, many small libraries in consortia (like mine) are having to decide this year whether they will need to drop out of their consortia and cease to offer eBooks entirely thanks to the cost explosion in the last nine years.

About the author

Carmi Parker is a librarian and ILS Administrator for Whatcom County Library System headquartered in Bellingham, Washington. She serves on the Executive Advisory Committee for the Washington Digital Library Consortium, an OverDrive consortium of 45 libraries serving 822,000 residents of Washington State. She also is a member of the Readers First Working Group, advocating for improved eBook experiences for libraries and patrons, and was a coordinator of the 2019-2020 Macmillan boycott in response to their eBook embargo. She received her MLIS from the University of Illinois at Urbana-Champaign in 2015 and worked for 14 years before that at Microsoft as a technical program manager in the Online Services Division. She lives in Everett, Washington with one husband, two sons, two dogs, three cats, four leaf bugs, and five sterbai corydoras. She can be reached at carmi.parker@wcls.org.

Appendix

Publisher concerns

Background

Sometime in 2017 or early 2018, Amazon reported to Macmillan (and perhaps the rest of the Big Five) that it was measuring both the retail sales of Macmillan eBooks and the loans of Macmillan eBooks through Kindle on OverDrive. Amazon saw a pattern of growth in library "reads" as a proportion of total reads. Amazon theorized that a "lack of friction" in eLending was cannibalizing eBook sales and transforming former book buyers into borrowers. Macmillan took the information and implemented the Tor embargo of 2018 and then the embargo on all imprints in 2019 in order to increase friction. Libraries resisted in various ways and Macmillan dropped the embargo in March 2020. Because discussions about the embargo and its cause were complex and contentious, I begin here with some basic premises and facts about libraries and publishing before addressing specific concerns.

Premises

Authors deserve to be compensated fairly for their work (as do editors, illustrators, book cover designers, eBook file formatters, and everyone who contributes to a vibrant culture of reading).

Libraries have a mandate to offer a wide range of materials to their residents and for that reason support all authors who contribute to a broad, rich culture of reading. Libraries, however, are not complicit in or responsible for poor author compensation. Publishers are responsible for the compensation of their authors.

Libraries have an ethical obligation to create equitable access to a range of enriching and informative material for their residents. Publishers, as for-profit corporations, have an obligation to generate revenue for their shareholders. Publishers currently do not incur net financial loss from selling eBooks to libraries, nor should libraries expect them to do so.

To sum the two premises above, there is no moral imperative between libraries and publishers: libraries are not obliged to pay more for books in order to support authors and publishers are not obliged to make less on books in order to support libraries.

The narrative proposing that eLending is hurting authors is somewhat misleading in its attempt to humanize what is fundamentally a disagreement over fair pricing between government entities and billion-dollar corporations. Libraries could make a similar argument that if only publishers would lower their prices, libraries would be able to pay their staff more adequately.

Facts

Libraries spent approximately $1.2 billion dollars on materials in 2018, approximately 15% of the trade publications industry's annual sales totaling $7.9 billion.

Authors and publishers make more money per unit from eBooks than they do from print books, because print costs more to create. This is true both for retail sales and library sales.

Authors and publishers make more money with eLending than without it. (If they didn't, they wouldn't enable eLending.)

With standard contracts from the Big Five authors, author royalties are a percentage of publisher revenue. With eBooks, the standard contract ensures that authors receive 25% of the revenue from a sale after the distributor discount. Publishers get the other 75%. Therefore, any effort to "help" authors helps their publishers three times more.

All of the Big Five publishers are parts of international mega-corporations.

Publisher	Owning corporation
Hachette	Lagardère Group
HarperCollins	News Corp
Macmillan	Holtzbrinck Publishing Group
Penguin Random House	Bertelsmann
Simon & Schuster	ViacomCBS

Publisher concern: eLending "cannibalizes" author income

Amazon (which tracks both eBook sales and Kindle library loans for traditional publishers) noted that eBook "reads" from libraries were a growing percentage of total reads. Macmillan reported in July 2019 that library reads were 45% of total.

The "revenue per read" on an eBook purchased by an individual at retail is higher than the "revenue per read" on an eBook purchased by a library, so if library reads represent a growing number of total reads, that translates into a gradual shrinking of eBook revenue.

For example, let us propose that an ebook from Macmillan costs a reader $15. The publisher receives 70% of the revenue, for a revenue per read of $10.50. The library can purchase the same eBook for $60. The publisher receives 50% of the revenue and, according to OverDrive, the eBook will circulate an average of 12 times. Therefore, the revenue per read on the library eBook is $2.50.

	Retail	Library
Price	$15.00	$60.00
Publisher percentage	70%	50%
Publisher revenue	$10.50	$30.00
Author revenue (25%)	$2.63	$7.50
Reads	1	12
Publisher revenue per read	$10.50	$2.50
Author revenue per read	$2.63	$0.63

Amazon charged that over time, the number of library reads was a growing percentage of total reads, leading to diminishing total revenue.

1000 books	Year 1	Year 5
% of library reads	25%	50%
% of retail reads	75%	50%

Revenue from libraries	$625.00	$1,250.00
Revenue from retail	$7,875.00	$5,250.00
Total	$8,500.00	$6,500.00

Libraries do not dispute that eLending has grown significantly since 2012 when Pew Research reported that most library users were unaware that they could borrow eBooks. However, libraries do dispute Amazon and Macmillan's explanation for the growth of eLending: that a "lack of friction" is fundamentally changing book buyer behavior and turning them into book borrowers. We reject the supposition for three reasons:

- No data has been offered to support the claim beyond anecdotes.
- The "lack of friction" argument doesn't make sense. Both publishers and libraries understand that a certain amount of "friction" in borrowing drives eBook sales. For example, if I want to read a print copy of a best seller on my vacation next week, I am likely to buy it, because I know it is popular and will be unavailable from my library for several months. This is also true for eBooks, which are almost exclusively sold under sequential licenses. There is nothing about eLending that makes it easier for me to borrow an ebook than to buy it.
- The supposition assumes that the growth of eLending is due to former book buyers becoming borrowers. In fact, most of the growth in eLending is due to print book borrowers becoming eBook borrowers, a condition that is favorable to publishers because they make far more from a library eBook read than a library print book read.

We theorize that eLending is growing because it has yet to reach the equilibrium we have long reached with print books. Simply stated, for any given book, there are more people who want to read it than who can buy it, which means there is some ratio of borrowers to buyers. While it is unclear what a "normal" ratio might be, it seems likely that borrowers naturally outnumber buyers, which means that a "normal" percentage of library reads to retail reads will be in excess of 50%.

Publisher concern: Perpetual licenses hurt authors

As stated in the model analysis, we agree that perpetual licenses are unfair to publishers if sold at retail price and if the edition is truly perpetually available.

However, when we look at the purchase data, we see that libraries began paying what we believe to be a fair price for perpetual licenses in 2013. At present, none of the Big Five publishers offer eBooks on a perpetual license at all, and those that still offer a perpetual license on eAudiobooks charge approximately three times the retail price.

Also, perpetual licenses are not always perpetual. We process hundreds of titles quarterly for which we paid a perpetual license but cannot use because the publisher no longer has rights, has decided to refuse rights (*Charlotte's Web* being the most notable example) or has issued a new edition and disabled the use of the old one, forcing a repurchase.

That said, many libraries were creating collections between 2000 – 2010 and were able to purchase perpetual licenses at retail prices on books that are still circulating, an imbalance that favored libraries.

Now that the imbalance favors publishers, wherein we pay a multiple of retail price on eBooks that all expire, perhaps publishers and libraries can agree to an approach going forward approximating the "middle ground" we found between 2013 – 2018.

Reciprocal borrowing hurts publishers and authors

We are willing to acknowledge this as a possibility because we do not currently know the extent of reciprocal borrowing of eBooks in libraries. The charge specifically is that reciprocal borrowing increases the number of books to which a patron has access at a time, increasing the chances that a book they would otherwise buy will be immediately available to them from one of their libraries, and reducing the wait time friction that drives some book purchases.

For example, I do not live in the city of Seattle, but I do have a Seattle Public Library card that I sometimes use to read eBooks. I have access to SPL's eBook collection because it has a reciprocal borrowing agreement with my local library. If I go to an SPL branch and show them my local library card, they will give me an SPL account, allowing me to borrow both physical items and eBooks.

We theorize that reciprocal eBook borrowing is not widely enabled by libraries in general, and for those who do enable it, not widely used by its patrons.

We believe it is not widely enabled by libraries because of the cost. Libraries that struggle to fund eLending are unlikely to be willing to pay for eBooks for patrons who are not their constituents.

We also believe that it is not widely used by patrons because reciprocal borrowing is a fundamentally a service that libraries offer to other libraries for special case scenarios, not something we promote to patrons.

If publishers are interested in knowing more about this, it would be relatively simple to survey libraries to understand the extent of reciprocal borrowing.

Detailed analysis of price and license restriction history

eBOOKS	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Average**
Hachette	**$13.30**	**$13.57**	**$38.14**	**$9.49**	**$16.66**	**$67.38**	**$56.47**	**$67.85**	**$61.64**	**$59.86**	**$40.44**
MA: 24 mo									$62.76	$59.86	$61.31
MA: 26 ckos				$9.49	$9.49	$8.99	$12.21	$11.74	$14.24		$11.03
One copy/One user	$13.30	$13.57	$38.14		$21.44	$68.57	$62.25	$71.86	$67.69		$44.60
Harlequin	**$7.41**	**$8.37**	**$7.77**	**$7.57**	**$9.06**	**$8.45**	**$9.24**	**$9.18**	**$9.80**	**$12.84**	**$8.97**
MA: 26 ckos					$8.31	$8.45	$9.24	$9.18	$9.80	$12.84	$9.63
One copy/One user	$7.41	$8.37	$7.77	$7.57	$18.49						$9.92
HarperCollins	**$14.30**	**$21.33**	**$9.93**	**$12.84**	**$11.11**	**$11.68**	**$12.99**	**$12.95**	**$13.01**	**$12.23**	**$13.24**
MA: 26 ckos			$9.81	$12.74	$11.11	$11.68	$12.99	$12.95	$13.01	$12.23	$12.06
One copy/One user	$14.30	$21.33	$17.38	$18.21							$17.81

Macmillan					**$46.39**	**$45.45**	**$47.00**	**$46.04**	**$43.64**	**$47.56**	**$46.01**
MA: 24 mo									$42.86	$47.56	$45.21
MA: Earlier 52 ckos/24 mo					$46.39	$45.45	$47.00	$46.04	$43.72		$45.72
Penguin	**$13.70**	**$14.32**	**$12.75**	**$13.22**	**$14.26**	**$34.56**	**$42.63**	**$54.44**	**$50.62**	**$38.68**	**$28.92**
MA: 12 mo			$12.88	$13.22	$14.24					$25.00	$16.33
MA: 24 mo								$62.81	$50.62	$55.00	$56.14
MA: Earlier 36 ckos/24 mo								$26.55			$26.55
One copy/One user	$13.70	$14.32	$7.49		$28.74	$34.56	$42.63	$53.18			$27.80
Random House	**$16.70**	**$28.13**	**$35.25**	**$43.85**	**$50.81**	**$53.23**	**$53.63**	**$51.96**	**$45.12**	**$36.56**	**$41.52**
MA: 12 mo										$26.39	$26.39
MA: 24 mo								$47.78	$53.07	$52.24	$51.03
MA: Earlier 25 ckos/24 mo							$4.99	$8.79	$7.35	$9.32	$7.61
MA: Earlier 36 ckos/24 mo									$12.68		$12.68
One copy/One user	$16.70	$28.13	$35.25	$43.85	$50.81	$53.23	$54.18	$55.13	$18.82	$21.48	$37.76
S&S	**$14.83**	**$15.78**	**$13.57**	**$15.98**	**$15.70**	**$14.68**	**$15.99**	**$15.38**	**$26.86**	**$44.26**	**$19.30**
MA: 12 mo					$15.69	$14.26	$15.50	$15.37	$15.42		$15.25
MA: 24 mo						$31.49		$16.49	$44.81	$44.26	$34.26
MA: 26 ckos			$25.00								$25.00
MA: Earlier 52 ckos/24 mo						$50.00	$50.00				$50.00
One copy/One user	$14.83	$15.78	$12.43	$15.98	$16.18	$27.99					$17.20
Average	**$13.37**	**$16.92**	**$19.57**	**$17.16**	**$25.48**	**$37.29**	**$37.49**	**$40.81**	**$39.61**	**$39.96**	**$28.34**

Hachette

Hachette began with an OC/OU model and sold eBooks at approximately retail price for 2011 and 2012, but the prices jumped in 2013 and again in 2016 and have remained high. They appear to have experimented with some titles on a MA: 26 cko model between 2014 and 2019, but most of the books were sold under OC/OU. They departed from that model in the summer of 2019, moving to an MA: 24-month model without significantly lowering prices.

Comparison to print:

Hachette showed good will in offering the library-friendly OC/OU model at a retail price in 2011 and 2012. In 2013, they increased prices, offering a range between $10.00 for a two-year old book from M.C. Beaton to $84.00 for the latest best sellers from James Patterson, Kate Atkinson, and others. The average was $38.14, a factor of about 2.5 if we assume a retail eBook price of $14.99. This was a favorable price for an OC/OU title if we use print for our model.

Prices rose again in 2016, averaging $67.13 in that year, a factor of 4.5 over retail. Then, in the summer of 2019, Hachette moved to an MA: 24-month license model with prices ranging from $35.00 - $65.00. The average my consortium paid in 2020 is $59.86, a factor of 4 over retail.

Conclusion:

Hachette currently offers as 24-month metered access model. It would be better to change that model to number of checkouts for reasons we discuss above.

At present, Hachette is not offering a fair price. The price would be fair for an OC/OU license.

Harlequin/Harper Collins

I include Harlequin with HarperCollins (HC) because the latter acquired Harlequin in 2014. Prior to that date, the two happened to use similar license models. Starting in 2015, they converged on a MA: 26 cko model.

As with Hachette, both began with an OC/OU license at a price approximating retail. HC moved to the MA: 26 cko model in 2013 and has retained it ever since. Harlequin moved to the MA: 26: cko model in 2015. HC appears not to have raised prices at all in the last ten years.

Comparison to print:

HC is to be commended for beginning with prices near retail and not raising them. It also is wise to use metering by checkout rather than metering by time period, since it enables better discoverability of authors who are building their reputations and can truly benefit from being part of a library collection.

However, HC's model is not perfect when compared to our print model, which suggests a retail price with 30- 35 checkouts.

Conclusion:

At present, HC's model is the most favorable of the "Big Five" publishers, although it is still somewhat costlier than print books. Certainly, it is to be commended for keeping prices reasonable.

Macmillan

Macmillan did not begin offering eBooks on eLending platforms until 2015. At that time, it offered the eBooks on an MA license permitting either 52 checkouts or 24 months, whichever condition occurred first, and the prices averaged about three times retail.

Macmillan has made no secret of its opinion that eBooks sold to libraries are damaging to its business and has experimented in 2018 and 2019 with embargoes limiting how quickly libraries can acquire eBooks after their release. The 2019 embargo included the sale of a single copy of each Macmillan title on an OC/OU license at half the price it normal charges libraries. For example, a single copy of Nora Roberts' *The Rise of Magicks* could be purchased on an OC/OU license for $30.00 in the first 8 weeks after release. Thereafter the price became $60.00 with an MA: 24-month license.

Macmillan dropped the 2019 embargo in March 2020 and all eBooks now use a MA: 24-month license and cost three to four times retail.

Comparison to print:

Similar to Hachette, the time-limited metering is detrimental and the prices are a factor of three over retail, which does not compare favorably to the print model.

Penguin/Random House

Penguin merged with Random House in 2013 and the two publishers converged their eBook models in 2014. Both began with an OC/OU license at retail-level pricing, but Random House quickly increased the price, averaging a price per copy of $46.43 between 2014 – 2019. Penguin used an MA model at retail from 2012 – 2014, but then aligned its model with Random House.

The conglomerate PRH announced in 2018 that they would be moving to a 24-month MA model. They stated that they had also reduced prices, but the average prices at my consortium did not change significantly after the new model took place.

In response to the COVID-19 epidemic, PRH also announced in March 2020 that they would be adding a new license model option to the existing 24-month limit: a 12-month license at half price. The option has enabled libraries to purchase more copies of popular books, which allows them to meet more quickly the increased demand for those books due to the pandemic.

For example, my consortium currently has 236 holds on John Grisham's *Camino Winds*, which came out in late April 2020. We cap copies purchased by the consortium at 20 usually, and a book like this always has enough holds to hit the cap. Had we purchased 20 titles at the regular price of $55, it would have cost $1100. In fact, we purchased 1 title on the 24-month license so that we continue to have this popular book in the collection next year, and we purchased 21 copies on the 12-month license, spending a total of $577.50 on *Camino Winds*. Since our circulation between March and April jumped 42% thanks to COVID, this option from PRH enabled us to continue to buy books on a pre-COVID budget without cutting service levels.

Comparison to print:

When Penguin was its own company, it was similar in approach to Hachette, offering Metered Access at a near-retail price point. The Metered Access was a 12-month limit (which would permit approximately 25 checkouts), so like Hachette, libraries ended up paying almost double the cost of print.

Random House, alternately offered an OC/OU model at a factor of about 4 times the price of retail. This is approximately what libraries would like to pay for an OC/OU license if aligning with the theoretical print model.

However, Penguin Random House together now offers metered access at a factor of 3 over retail, which is not favorable.

The flexibility enabled by the temporary 12-month metered access model, offered for COVID-19 relief, is certainly a gesture of goodwill on the part of the publisher, and that precedent of offering multiple models at once may be a good sign for the future.

Conclusion:

Random House offered a product at a reasonable (if slightly high) price for many years. Their move to Metered Access in 2018 was perhaps a step backward. Their temporary addition of a cost-saving 12-month license, however, demonstrates a willingness to experiment and a commitment to positive interactions with libraries, which can only be beneficial.

Simon & Schuster

Simon & Schuster appears to have offered OC/OU licenses at retail prices from 2011 – 2015. Thereafter, it changed to a 12-month MA license at retail price until 2019, and then to a 24-month license at a factor of three over retail price.

Comparison to print

As with Hachette, a metered access license in combination with high prices is not favorable. Libraries would prefer metered access of approximately 30-35 checkout at retail prices, like print, or an OC/OU model at a factor of 4 times the retail price. Offering both would be ideal.

Conclusion:

Simon & Schuster retained reasonable license models for many years, but has now taken a step backwards.