NEGOTIATION 201 SERIES

Zone of Possible Agreement: Researching & Predicting Publishers' Positions

ACRL
Advancing learning
Transforming scholarship
Association of College & Research Libraries

SPARC

Hello!

Katharine V. Macy, MBA, MLIS
Collection Assessment Librarian
IUPUI University Library

macyk@iupui.edu

Twitter: @kvmacy
ORCID https://orcid.org/0000-0002-6283-7143

1.

Defining ZOPA

Why are we talking about this?

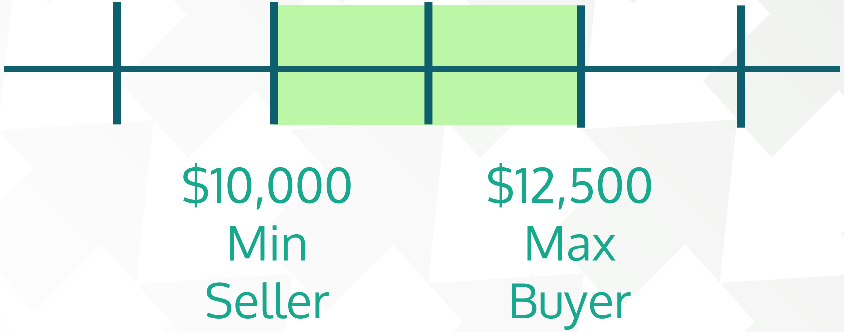
Negotiation 101

Deeper dive into a concept discussed in ACRL/SPARC Negotiation 101

- ⇨ Workshop Materials including presentation, resources, and case studies
- ⇨ Video recording coming soon!

ZOPA

The minimum the seller is willing to sell and the maximum the buyer is willing to pay.



While traditionally price focused, you can attempt to value other important parts of your agreement such as NDAs, perpetual access, and authorized users.

Finding ZOPA

Library Interests (Buyer)

- Naturally easier for us to determine
- Involves understanding your BATNA (Best Alternative to Negotiated Agreement) and reservation price.
- Negotiation 201 BATNA deep dive is July 29th from 3-4pm EDT

Vendor Interests (Seller)

- Much more difficult to forecast
- Examine:
  - Your data
  - Vendor pricing to other libraries
  - Industry Trends
  - Vendor Intelligence

2.

Your Collection's Data

The first step

Your historical data

- Price change data
  - Average annual increase at 1-year, 3-year, 5-year

Allows you to predict upper end of the vendor's range of acceptable agreement. Particularly useful if you are proposing pricing in *first-mover advantage* strategy.

Your historical data

- Use
  - If use is dropping off, you can push the vendor’s minimum selling price down.
- Cost/Use
  - Vendors often justify increases with more access to additional resources and tools.
  - If cost/use is increasing those resources and tools do not bring your institution increased value. Can be used to push down the selling price.

3.

Researching Pricing

Finding out what others are paying

POPULAR RESOURCES

Big Deal Knowledge Base

Open Access

BIG DEAL TRACKER | CONTRACTS LIBRARY | FURTHER GUIDANCE | CANCELLATION TRACKING

SHARE

This new product makes the serials market more transparent and efficient by detailing what thousands of peer institutions have paid for journal subscription packages. Individual institutions can use these pricing data, as well as the other resources on this site, to understand best practices in the field, make clearer assessments about the suitability of Big Deals, and better inform negotiations. SPARC has invested resources and development to collect and standardize these data. The Big Deal Knowledge Base helps the market work better and lowers the transaction costs of finding already public information. This is intended to help universities plan better.

https://sparcopen.org/our-work/big-deal-knowledge-base/

Things to note

- Different institutions have negotiated different levels of discounts and concessions on licensing terms within their big deals
  - Thornton, J.B. & Brundy, C. (2021). Elsevier Title Level Pricing: Dissecting the Bowl of Spaghetti. Journal of Librarianship and Scholarly Communication, 9(General Issue), eP2410. https://doi.org/10.7710/2162-3309.2410
  - Example: Colorado Alliance of Research Libraries (CARL) achieved discounts but gave up perpetual access rights with Elsevier, while Canadian Research Knowledge Network (CRKN) did not.

Transparency Lists

Institutionally created lists of subscription resources with pricing shared openly in compliance with vendor agreements. Some examples (not exhaustive)*

- Canadian Association of Research Libraries
- Cornell University
- Simon Fraser University Library
- University of Alberta Library
- University of North Texas Library

Why striking NDAs on pricing is important!

*Thank you to Sian Brannon, University of North Texas for compiling.

Evaluate pricing overtime

While other institutions may not have your exact package you can look at overall trends over time at different institutions.

4.

Industry Trends

Competitive environment in Scholarly Publishing

After a window between the late nineties of the 20th century and the mid-teens of the 21st, when the STM industry grew its revenues by about 5% annually, available data suggests that the industry's subscription revenue growth has slowed down to perhaps 1-2%. OA revenues have been rising faster, lifting overall revenue growth to 3-4%, still below the growth rate of a decade ago, but introducing a new uncertainty over the future revenue trajectory of the industry.

-- SPARC Landscape Analysis

Aspesi, C., Allen, N. S., Crow, R., Daugherty, S., Joseph, H., McArthur, J. T., & Shockey, N. (2019, March 29). SPARC Landscape Analysis. , https://doi.org/10.31229/osf.io/58yhb

Resources

- ⇨ SPARC Landscape Analysis
- ⇨ Update to the Landscape Analysis

Need help understanding the nuance of economic and financial information and why it’s important? *Librarian’s Guide to Understanding Scholarly Publisher Financial Data*.

Some Significant Trends

Scholarly journal revenues flattening*

Vendors are looking to control more of the scholarly communication system.

Vendor reps have increased pressure to aggressively trying to maintain status quo on existing products or to sell the increased value of new integrated tools such as learning analytics.

Moving toward transformative agreements

Read-and-Publish and Publish-and-Read are being embraced by publishers to lock in a significant portion of library budgets. Hedging their bets as OA grows.

Big Deal Cancellations

When institutions aren't finding a zone of possible agreement, they are cancelling big deals and moving to a la carte purchasing.

*Aspesi, C. & SPARC (Scholarly Publishing and Academic Resources Coalition). (2020, June 22). Update to the Roadmap for Action. *2020 update* , https://infrastructure.sparcopen.org/2020-update/update-to-roadmap-for-action

Some Significant Trends

Continued Industry Consolidation

As growth slows in a saturated market, the number or players will continue to reduce, especially as strategic acquisitions occur to increase control of the entire research and scholarly communication process.

Vendors will try to side-step libraries to sell products to university administrations to support research and learning analytics.

Moving toward data analytics*

Vendors see data analytics as an avenue for revenue growth and are looking to link publishing to data in their deals.

They are trying to create a new even bigger deal so vendor reps will be trying to entice libraries to increase their spend through these new offerings, presenting them as a value while making it harder than ever for libraries to breakaway if they sign on.

*Aspesi, C. & SPARC (Scholarly Publishing and Academic Resources Coalition). (2020, June 22). Update to the Roadmap for Action. *2020 update* , https://infrastructure.sparcopen.org/2020-update/update-to-roadmap-for-action

4.

Vendor Intelligence

How to research your vendor

Three Types of Ownership

Public

Traded on the public stock exchanges. They are required to file annual financial statements to government agencies. Information is abundant.

Private

Often fully or partially funded by private equity. Hardest to research since not required to make financial information public.

Non-Profit

Scholarly Society Publishers*

Publishers based in the US are required to file 990s which include financial information.

*Not all scholarly societies do their own publishing.

Public Company Research

- Corporate Website (look for investor relations under About Our Company or About Us)
  - Annual Reports / 10-K / 20-F (10-K and 20-F also available via EDGAR)
  - Press Releases
- News
- Industry Reports*
- Business Databases (Consolidates information from annual reports/ 10-Ks quickly)

Challenge: Often scholarly journal publishing is only one division of a larger organization. Digging into annual report/10-K can isolate data about the publishing operation.

*SPARC's Landscape Analysis & 2020 Update summarizes financial performance.

I've consolidated the historical financial performance for RELX (FY2014-FY2020) and Wiley (FY2015-2021) into an Excel Spreadsheet

Know your profit numbers

- ⇨ Gross Margin
- ⇨ Operating Margin
- ⇨ EBITDA (and the Debt/EBITDA ratio)*

If discussing profit or profit margins in a negotiation I suggest focusing on on operating margin or EBITDA, if available.

*You can find this easily in SPARC's Landscape Analysis and 2020 Update

A Note on Operating Expenses

Just because it’s a necessary expense needed in running the business does not mean it’s without criticism. Example:

- ⇨ If they are adding more and more employees so their wage and benefits expenses increase, while libraries cut employees and services to continue to buy their product – there is a problem.
- ⇨ SG&A (Sales, General, and Administrative) is an overhead expense that covers sales and marketing and other corporate expenses. Does the SG&A expense seem out of line with others in the industry? What is going on with their executive compensation?

Private Company Research

- Company website (about our company, press releases)
- News
- Industry reports

Much harder to locate financial data, best sources are often industry reports such as the Landscape Analysis.

Non-Profit Research

Some scholarly societies act as publishers.

- Scholarly society website (About Us, Annual Reports, Financials, Press Releases)
- News
- 990s

Where to find financials

Annual Report/Finances page of Society website

Written for society members and board of directors. Often provides consolidated financials as well as financials for different operating divisions (publishing, membership, etc.)

Smaller societies may not publish a financial report outside of a 990.

990

IRS financial reporting form required of US-based non-profits.

May not match annual report due to different reporting metric definitions or go into detail needed to isolate publishing from other society operations.

Resources to find 990s

- Guidestar
  - Limited access for free
- Propublica Nonprofit Explorer
  - Open resource

Check both resources because sometimes one resource is more up to date than the other.

Guidestar's guide on reading 990s

An Example

American Chemical Society

- ⇨ Hard to find on the society website
- ⇨ Search for “annual report”
- ⇨ Click Financials
- ⇨ Click Financial Highlights
- ⇨ Click the link to “financial results” to get the full report

American Chemical Society

American Chemical Society

- In annual financial report the "Change in Net Assets Without Donor Restrictions from Operations" is what I'm considering to be the equivalent of Operating Profit (EBIT).
- The electronic and other information services division is the scholarly publishing operation.
- My financial analysis is available for you!

ACS financial analysis highlight

- Estimated Change in Net Assets Without Donor Restrictions (EBIT) in 2020 for all of ACS operations was $62.5MM
- EBIT in 2020 for their scholarly publishing operation was $92.2MM, an estimated operating profit of 14.6% up from the prior year (10.3%).

What this means?

Vendor reps will claim that the scholarly publishing arm supports the rest of the society. This is true to the tune of $29.7MM. However, they are gaining a significant portion of earnings beyond. Average increase in Scholarly Publishing revenues grew 6% between 2019 and 2020. They have room to decrease their revenues and maintain operations.

Information beyond financials

Often this can be found in annual reports and financial statements

- ⇨ How has the employee count changed?
- ⇨ Has the number of journals changed?
- ⇨ Does the discussion indicate changes in how scholarly publishing revenue is generated?

Final Thoughts

This research is meant to provide insight on how the vendor may behave

- ⇨ Will they be aggressive to keep price up?
- ⇨ Will they be more likely to concede in order to keep you?

This enables you to try to predict the minimum the vendor may sell to you. You may want to draft two ZOPAs one based on aggressiveness and one on concessions.

As you learn more during the negotiation you likely will need to adjust your estimate.

Final Thoughts

Sometimes the minimum the vendor the minimum is will to sell is higher than the max that you want to pay. In this case you cannot find agreement, so the zone of possible agreement does not exist.

To really understand if this is the case you must understand your BATNA, the best alternative to negotiated agreement and your reservation price (the price where you walk away). Our next workshop on July 29th @3pm EDT focuses on this topic (register).

Thanks!

Any questions?

You can find me at:

- ⇨ @kvmacy
- ⇨ macyk@iupui.edu

Credits

Special thanks to all the people who made and released these awesome resources for free:

- Presentation template by SlidesCarnival
- Photographs by Unsplash

5.

Appendix

Understanding Financial Numbers & Profit

Back to Profit Slide

Gross Margin

Gross Sales
-returns, discounts, and allowances
Net Sales
-COGS
Gross Profit

Gross Profit/Net Sales =
Gross Margin

Think of Gross Sales as the revenue if you paid list for everything!

Cost of Goods Sold (COGS) are the variable costs to produce a product (so hourly labor and materials).

The higher the gross margin, the more capital the company retains to pay for operating expenses, corporate overhead, debt and owner dividends.

Gross margin always looks incredibly high because it doesn't include any of the fixed operating costs that are required to run the business.

Back to Profit Slide

Operating Margin

Gross Profit
-returns, discounts, and allowances
Net Sales
-COGS
-Operating Expenses
EBIT

EBIT/Net Sales =
Operating Margin

Operating expenses are the expenses an organization incurs in normal operations such as rent, equipment, inventory costs, marketing, payroll, insurance, and research and development. Includes accounting adjustments depreciating capital expenditures and amortization. These are do not include the variable costs in producing a product or service.

Earning before interest and tax expenses (EBIT) is the earnings generated after subtracting variable and fixed operating expenses.

Operating profit margin is an indicator of how effectively a company is at managing costs. Historically scholarly publishing has not passed along cost efficiencies that you would expect with digitization. This can be seen through the fact that profits have grown at rates faster and revenues (price increases).

Back to Profit Slide

EBITDA

Gross Profit
-returns, discounts, and allowances
Net Sales
-COGS
-Operating Expenses
EBIT
+Depreciation Expenses
+Amortization Expenses
EBITDA

EBITDA/Net Sales =
EBITDA Margin

(Short Term + Long Term Debt)/EBITDA **=**
Debt/EBITDA Ratio

Earnings before interest, tax, depreciation, and amortization expense (EBITDA). You add back in the depreciation of capital assets such as buildings and equipments as well as the amortization expenses of an intangible asset (e.g. intellectual property). Over a set period, capital and intangible assets lose monetary value.

EBITDA is an indicator of the cash flow (how much cash would be available) to pay for long term debt. EBITDA creates the most apples to apples comparison to compare different companies.

The Debt/EBITDA indicates the ability to pay off debt. A high ratio (greater than 3.5) indicates a heavy debt load.