Preparing for Europe
Prices for Europe — The Publishers' View

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Journal Pricing and the European Market

The single European Act has created legislation about differential pricing within the EC, which has clear implications for journal subscription prices. However, I think the real benefit is that this has made publishers think much more widely about what is and is not fair and reasonable in their journal pricing on a worldwide basis. I shall therefore make no apology for considering the European dimension as just one aspect of the whole question of journal pricing, and in particular price differentials based on geography.

Pricing in General

Before looking at journal pricing strategies for one particular market - Europe - it makes sense to consider briefly the whole business of how a publisher arrives at journal prices.

Costs

There are, obviously, a number of elements which go to make up the cost of a journal:

- Production costs: some of these (such as typesetting) are the same regardless of how many copies are printed, while others (such as paper) vary according to quantity.
- Editorial costs: office costs (such as secretarial help, telephone bill, postage, etc) and probably an honorarium or a royalty.
- Promotion costs: printing and sending out leaflets, taking stands at exhibitions, supplying sample copies, etc.
- Dispatch costs (packing, postage and freight).
- Publisher's Overheads. This includes not only the employment costs of the people who work directly on the journal (editorial, production, promotion, subscriptions) but also a share of the costs of those functions which relate to all the activities of the company (this would include management, finance, personnel, maintenance, etc) - not to mention a share of the cost of the buildings we all work in, the warehouse and the computer.

Profit

No publisher can afford to simply cover all the costs I've outlined. We all - commercial publishers or otherwise - need to make a bit more than that. Commercial publishers call it profit: "non-commercial" publishers tend to call it surplus, but it's the same thing.

What do we need it for? First of all, we need to stay in business. Publishers have to expand their activities simply in order to survive. Most companies publish books as well as journals, and sales of almost all books decline over time - and the rate of decline is getting steeper. Even journals, which when they are successful - eventually become very stable, are taking longer and longer to establish, and even long established journals are losing subscriptions and therefore revenue.

The result is that publishers have to publish more every year just to remain level, and that needs money.

Quite apart from the profit that goes back into the business, some money also flows out of the business. In the case of a commercial company the shareholders will require a return on their investment. Unless they get more for their money that they could get by putting it in the Post Office, there is no reason why they should keep their money in that particular company. So a publishing company (or an individual journal) which isn't making the profits its owners want will be shut down, or sold off.

It's not quite the same for learned society publishers - they don't have shareholders as such. However, they do support their parent society, usually in two ways:

- Members of the society may be receiving the journal at a very low price (often below its actual cost), or even free. The difference between the commercial price for those copies, and what they actually pay, is a kind of "dividend" to the Society.
- Any profit which the journal does make - and if it makes a loss the Society is in real trouble - goes into the Society's funds, where it may be used for any of the Society's other activities, from educational projects to starting up new publications.

What the market can afford.

From what I've said so far, it sounds as if a publisher looks at the costs, adds on the required profit and bingo! there's your price. However, it isn't nearly as simple as that.

For a start, working out your prices in this way may produce a figure which is totally unrealistic for the market you have in mind. The publisher has to make an informed guess (based on what she knows about the market, what people say would be a reasonable price, and the price of similar publications). If the cost-plus formula produces a figure which is much too high, the publisher will have to reduce the price somehow - probably by cutting corners on production quality. Sometimes the publisher will have to accept a lower-than-usual profit margin in order to reach a particular market (although publishers can only afford to do this, obviously, if they can manage to make higher than average profits on other journals). Lastly, the publisher may conclude that the particular journal simply isn't viable.

Price x Unit Sales

The other factor which comes into this calculation is the number of copies which the publisher can expect to sell at a given price. Almost always, raising the price can be expected to reduce the number of copies sold, and reducing the price will increase the number of copies - although it's obviously not a straight line relationship.

What the publisher wants to achieve is not necessarily the price at which the largest number of copies will be sold. What publishers are after is the point at which the price multiplied by the number of copies is highest. Thus 1000 copies at £50 (£50,000) is better than 1500 copies at £30 (£45,000).

There is another factor, too. Let's say that by halving the price (from £50 to £25) we double the sales - though in my experience that's most unlikely. If sales did double, the revenue would be the same - £50,000. But at the same time, the cost of producing and sending out the copies would have gone up - not doubled, because some costs would stay the same, but nevertheless increased. Thus the publishers profit would actually go down, so it would be a bad commercial decision to halve the price.

To some extent, you might think that learned societies (and journal editors) are more interested in reaching the maximum number of readers than in making the maximum amount of money. However, at the end of the day they, too, have to decide on the price which will keep the journal in business. In fact, recent comparisons (by the PA and ALPSP) of the price per page of the journals published by their respective members have shown that the difference is not all that great, and in some years the ALPSP journals have in fact been more expensive.

Price Differentials

What I've said up to now has made one major oversimplification. I've assumed that publishers (commercial or otherwise) only work out one price for all their subscribers. This is, of course, very rarely true.

There are two main ways in which a publisher may decide to distinguish between different groups of subscribers - by type of subscriber, or by geographical location.

Subscriber Type

For most academic journals, 3/4 of sales are to libraries, and thus libraries are our main customers. However, it is sometimes obvious to a publisher that the price she needs to charge for a particular journal may be out of the reach of some customers. This is particularly the case where a journal is of interest to individuals working in a particular field (especially if they are not very well paid - nurses, for example).

In such a case, the publisher could decide simply to write off her chances of selling subscriptions to those individuals. Another choice, however, is to sell to them at a much reduced price. Provided the price they pay covers the extra cost of producing additional copies (paper, printing, postage) it won't have made any difference to the costs there were before. If it covers even a little bit more than that, then it helps to reduce the costs (and, therefore, the price) of the original copies.

Members of societies are another category of subscribers who often receive journals at very low prices indeed. If there aren't too many of them, and the price they pay at least covers the extra cost of these copies, there's no problem. However, if the vast majority of subscribers are members, you can see that they have to bear a share of the "fixed" costs too, because otherwise the price to the full-rate subscribers would need to be unreasonably high. If they get their copies free then clearly the full cost will have to be borne by the other subscribers. This helps to explain why learned society publishers, even if they don't have to pay dividends to shareholders, still need to charge full-rate subscribers very similar prices to those charged by commercial publishers.

Geographical Location

Many publishers charge different prices to the same category of subscribers in different parts of the world; they may distinguish simply between "home" and "overseas", or they may make additional distinctions for different parts of the "overseas" market.

There are a number of reasons for doing this. It used to be argued that different geographical markets could afford higher or lower prices, although I think most - if not all - publishers have abandoned any such strategy because it is highly unfair, and almost inevitably leads to "buying round". Perhaps one of the few justifications - if not the only one - for doing this is in order to make high-priced academic journals affordable to libraries and individuals in the developing world.

The most compelling reason for charging more to send copies of a journal to someone who lives in a distant part of the world is that it costs the publisher more to get it there. The key difference, of course, is the cost of postage. However, other costs are higher, too: marketing, subscription renewals and so forth all cost more - again, largely because of the higher cost of postage. Another consequence of the distance is that more copies may go astray and have to be replaced, which also costs the publisher money.

If customers are being offered the option of paying in a currency other than that in which the publisher does business, it will also cost the publisher to convert the money.

If the publisher does decide to set prices in one or more currencies in addition to her own, this creates another problem. Libraries and subscription agents like to receive publishers' journal prices for the following calendar year by about July. This means that the publisher has to decide on next year's subscription rate by around the end of May. This is difficult enough in your own currency, since it entails making what can only be informed guesses about the number of pages that will be needed. The problem is magnified if, at the same time, you have to guess the appropriate exchange rate at which to convert into other currencies. Even if the rate decide on for is correct at one point during the 15 months between the first subscription renewal going out and the last subscription being received, it is virtually impossible that it will be right for the whole period. This means that a price which was meant to be the exact equivalent of the sterling price may end up being widely different from it by the end of the subscription year. The alternative - of leaving the subscriber to work out an exact conversion when he pays - leaves all the work to the subscriber, which rather defeats the object of the exercise.

Europe

Legal Requirements

Turning now to the European market in particular, the Single European Act does make specific requirements of everyone who supplies goods between one EC country and another (though this doesn't, of course, apply to non-EC countries). The Act says that it is illegal to discriminate between customers on grounds of nationality (Article 7, Treaty of Rome), while Article 8b prohibits the abuse of a "dominant position" in trade between member states.

Interpretations differ, but it does seem clear that this means that price differentials between EC member countries which are not justified by differing costs of supply (such as postage and related costs) are - already - illegal.

Philosophical Requirements

I would go further than this. I don't see how a publisher can justify, to any of her customers, price differentials which are not justified by cost differences. I cannot imagine that subscribers outside the EC will be convinced by any arguments which maintain that they should pay a significantly higher price simply because they are not members of the Community.

A Fair System

I will now stick my neck out, therefore, and describe what I personally believe would be a fair way for all publishers to price their journals (though whether every publisher's computer can currently cope with it is a different matter!).

What I advocate is this: there should be a single subscription price (perhaps with US dollar equivalent) for each category of subscribers. Added to this would be a separate charge for postage. Some simplification might be needed to reduce the postal "bands" to a manageable number, but this would cause only minor averaging of the post element. It would have the additional benefit that subscribers could see at a glance the extent to which postage, as opposed to other costs, was responsible for increases in the price of the journal. (While production and - particularly - paper costs have been rising faster than the UK Retail Price Index, postage costs have risen even faster.)

This is what I personally believe to be the fairest way of setting journal prices, and Churchill Livingstone at least will be adopting this price structure from the beginning of 1992. ❑

Fixing an Overseas Price (UK equivalent £50)

(Sally Morris, Churchill Livingstone)

Date	Event	Exchange Rate	Dollar Rate	£ Equivalent
June 1990	Price Fixed, price list printed	1.60	$80	£50.00
Sept 1990	Renewals start	1.50	$80	£53.33
		or 1.70	$80	£47.06
Dec 1991	Last subscribers pay	1.40	$80	£54.17
		or 1.80	$80	£44.44

The Price of a Journal

(Sally Morris, Churchill Livingstone)

Production cost	£ 15.00
Editorial office cost	£ 1.50
Contributors' fees	£ 0.50
Post & packing	£ 7.50
Promotion	£ 1.50
Overheads:	
Production / editorial staff	
Promotion / ads sales staff	
Subscriptions + warehouse staff	£ 16.50
Financial + management staff	
Office accommodation	
Warehouse accommodation	
Computer costs	
Discount (average)	£ 2.50
Profit	£ 2.50
Total Price	£ 50.00

Effect of Increasing Print-Run

(Sally Morris, Churchill Livingstone)

(Single issue)	1000 copies	2000 copies
Typsetting and orgination	£ 1800	£ 1800
Paper	600	1200
Printing - fixed	675	675
Printing - variable	200	400
Binding - fixed	240	240
Binding - variable	115	230
Editorial office	1000	1000
Contributors' fees	150	150
Post and packing	2000	4000
Promotion	1000	1000
Overheads	7500	7500
Total cost	£15280	£18195
Cost per copy	£ 15.28	£ 9.10
Cost per additional copy		£ 2.92
Full price	£20	£15
Special rate (eg members/ individuals / trainees)		£ 7.50