

Building a Better Model: Eric Frank on Flat World Knowledge

by Edward Lener and Cy Dillon

Like everyone interested in books, librarians are challenged by an era of upheaval in the publishing industry, and no part of that industry has been more controversial recently than textbook publishing. Faced with dramatic price increases, frequently revised editions, and new options in content delivery, students, parents of students, faculty, and librarians alike have sought lower-cost solutions for acquiring texts and other class resources. In response to this potential market, a wide variety of alternatives, including rental books, online versions of print texts, cooperatively written and updated online texts, books available from sites supported by advertising revenue, print-on-demand books, used-book cooperatives, and a variety of combinations of these approaches, have come into being, in most cases as Internet commerce initiatives. At this point the most innovative of these alternatives is a company called Flat World Knowledge. Cofounder Eric Frank responds here to our questions, describing in detail how the company came to be and the methods it hopes to use to acquire a substantial share of a market currently dominated by a few traditional publishers. Flat World's innovations and concern for both customers and authors suggest that publishing as a whole has the potential to emerge from the current state of confusion into a new order of flexibility and responsiveness to readers' needs.

VL Why did you start Flat World Knowledge?

EF After spending more than thirty combined years in the college textbook industry at market leaders McGraw-Hill, Pearson, and Thomson (now Cengage), my cofounder Jeff Shelstad and I reached the conclusion that almost nobody was happy with the textbook indus-

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try anymore. Students, who are often on the edge financially and struggling to stay in school, are outraged at the cost of many textbooks. Unable to afford textbooks for all their classes, they may have no choice but to go without, which puts them at a learning disadvantage. Educators are often frustrated at the difficulty of adapting textbook content into their courses. Both of these groups are exhausted by the pace of new editions, which often seem to be published solely to drive used books and other lower-cost alternatives from the market. For their part, authors have watched with growing alarm as the textbook publishers, like music studios, seem to have lost control of their content. Used books have

become more prevalent; gray markets have emerged for reimporting low-priced international editions back into the United States; online piracy is growing; and textbook rental models are sprouting. Publishers generally do not compensate authors for any of these.

It was into this environment that we set out to build a textbook publishing company—one that would dramatically reduce textbook costs, provide students with more choice of formats and price points, give faculty control to modify and integrate content into their courses, give customers control over timing of changes to new editions, and provide authors with a steady royalty stream for their intellectual property. Our model is better because it addresses the main concerns of all parties involved and is consistent with the way people will consume content in an Internet age.

VL Tell us a little bit more about your open textbook model.

EF Flat World Knowledge is the leading publisher of commercial open-source textbooks for higher education. Well-respected subject matter experts write our textbooks. The books are peer-reviewed, professionally edited, illustrated, and designed, and made available free online under a Creative Commons license to educators and students. Educators have the freedom to use the books as they are or to reorganize and edit them to suit their unique requirements. Students

can access the books free online or purchase alternatives ranging from print-on-demand versions of the books, to audio versions, to downloadable versions (by the book or by the chapter) at a fraction of the cost of traditional textbooks. Our approach is device agnostic, so students can use our digital books on their laptops, favorite e-reading devices, or web-enabled mobile phones. Students can choose to purchase from a range of digital study aids that we create to support each book. These include audio study guides, online interactive quizzes, and digital flashcards of key terms and concepts. Flat World Knowledge backs our textbooks with an online social learning platform that also allows students to learn from one another through things such as the ability to take and share notes.

It seems to be working. In spring 2009, we had twenty-seven classes with 750 students using our books. By fall 2009, we had expanded to 480 classes and approximately 40,000 students. We are growing through word-of-mouth more than anything at this point, which is gratifying to see so early in our launch.

VL You conducted beta testing at several colleges and universities. What were some of the most important lessons you learned from this real-world testing in classrooms?

EF In the fall semester of 2008, we ran in-classroom tests in twenty university classes with around 500 students enrolled, followed by a larger test in spring 2009 with twenty-seven universities and 750 students. In doing so, we learned a number of valuable lessons. Most important, we validated two critical components of our model—first, that “free” can work as a business model, and second, that quality matters. We found that despite the presence

of a complete, free online book, students did purchase alternative formats (print, audio, etc.) and study aids (online practice quizzes, digital flashcards, etc.) in sufficient volume to build a sustainable, profitable business around an open textbook model. As for the quality of our books and related teaching resources, the faculty who used them rated them as comparable or, in some cases, better than the traditional textbooks they had used previously. Beyond validation of those two important elements, we learned that while the mantra

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of physical real estate is “location, location, location,” the mantra of building online real estate needs to be “usability, usability, usability.” It was really eye-opening to observe how people used our site. Things that we thought were obvious were not, and people often tried to do things that we never intended or considered. Therefore, we essentially engaged in a complete redesign of the site, and constant redesign is now a dynamic process going forward.

VL *Publishers Weekly* reported that you acquired additional financing in 2009. To what do you attribute your success in such tight economic times?

EF We raised \$700,000 in private, angel investments in the fall of 2008 as things began to implode around us in the economy. Next, we raised over \$8,000,000 in venture capital in February 2009, right in the heart of the “Great Recession.” We attribute our success

to three things. First, even in bad times, an innovation-oriented market always has capital investments for good ideas that can work. A poor economy may decrease the total amount of capital available and make the holders of that capital more stringent about how and where they invest, but in the end good ideas and execution will, I believe, get funded. The textbook market is ripe for innovation, and I think funders saw that. Second, our backgrounds helped us raise money. A lot of venture capital was burned up in the 1990s in education without many positive results for investors (or consumers). Many of those ventures were led by technologists who did not understand education. That is clearly not the case with us. Our team brought a lot of experience in the higher education space, with over thirty years of experience at the big textbook publishers. Investors knew we had a good idea, but more important, they believed that we understood the nuances and potential hazards in the textbook market and could successfully navigate those to build a business. Third, the higher education market generally behaves counter-cyclically to the overall economy. As the economy contracts, enrollments expand. Those new enrollees are often economic refugees, and they are acutely price-sensitive when they arrive at a college or university. Such students embrace solutions that can reduce their cost of education. As a result, in many ways, the overall timing for us to launch our business was ideal.

VL Why would an author initially be drawn to your publishing model?

EF As of this writing, over half of our authors (and we have over seventy under contract) are successful textbook authors at the major publishers. The others are all recognized scholars or leading teach-

ers in their fields who have never written textbooks previously. Our model attracts authors for some clear and compelling reasons.

First is a potential for higher royalties. In an apples-to-apples comparison (i.e., a typical adoption of one hundred students), our authors will likely earn higher royalties. We pay one flat royalty rate of 20 percent on all sales, in all channels, anywhere in the world. This compares to a traditional industry average rate closer to 11 percent. To maintain fairness and transparency, there is one simple royalty rate applied to every dollar, no matter where it is earned.

Next is a potential for higher market share gain and impact. The textbook market is a highly competitive one. Every course has books available from multiple publishers. For authors at the big houses, they are not only competing with books from other houses, but with books from their own publisher! So how can a new entrant successfully break into the market? We believe that the open model provides a key competitive advantage on which to build market share. We can publish a book of comparable or better quality than those of the market leaders, but then make it open. Students have free or affordable access, and instructors have the power to modify content and control the timing of moves to new editions. These value propositions then drive adoption.

Our approach also allows authors to gain behavioral intelligence about users. One of a textbook author's greatest frustrations is the lack of knowledge about how customers actually use the book. What topics are they covering? What topics are they skipping? How quickly do they move through the material? In what order do they cover the material? All this can leave authors uncertain about what kinds of revisions, if any, to make to new editions. By enabling

customers to make changes to the book and then capturing all of those changes in a reportable format, we are able to provide authors with real-world information about how people use their books. Authors will be far better equipped to make changes to the next edition of the book based on this type of data than they are today, thus producing an increasingly effective book with each modification.

VL Tell us more about your author agreements.

Our model attracts authors for some clear and compelling reasons.

EF Our authors keep control over copyright of their books, and in essence license them to us to publish in our model. Given that we do make a substantial investment in the development, sales, and marketing of each book, we ask for an exclusive right to publish should we be "successful" in the market. Together with our authors, we define at the outset what success means to both of us and establish a dollar floor. If earnings sink below that, our authors are then free to publish their books elsewhere.

We are also collaborating with our authors as partners in ways that look forward. Nobody knows when we sign an agreement with an author what the future of publishing is going to look like, or exactly how authors will earn their compensation. As new revenue streams are developed, our authors will get 20 percent of all of that revenue, because they are the reason someone is on our site to begin with.

Our authors are a critical part

of the new venture. They get stock options in the business when they successfully deliver a manuscript for publication. We also offer options for authors who bring us other authors that we eventually sign. We are in this together with our authors.

VL How many titles do you currently have under contract?

EF We have forty-two titles under contract today, and are expanding rapidly. We published our first eleven titles in the spring of 2009, and will publish another five titles in the winter of 2009.

VL Your business model is based on free access to the online version of the textbook but charging for other services. What percentage of students do you anticipate will choose to purchase alternate formats such as print or audio versions? What about buying study aids or supplementary materials?

EF Given two in-class testing periods, and now significant usage in fall 2009 (over 40,000 students), we are developing a good sense of this. Perhaps the best way to answer is to share some results from our spring 2009 beta. Six Flat World Knowledge books were used as the primary textbooks in twenty-seven classes. These books are *Exploring Business*; *Launch! Advertising and Promotion in Real Time*; *Fundamentals of Income Tax Theory and Practice*; *Organizational Behavior*; *Principles of Management*; and *Principles of Microeconomics*. In total, approximately 750 students enrolled in these classes. All of these students had access to the free online version of the textbook, and no purchase was required of these students. Of these 750 students, 442 students (59 percent) placed at least one order with us, with the average student spending \$28.20. In total, 294 printed textbooks were purchased by students. Thus, approximately 39 percent of

students chose to purchase a print copy of the textbook, even though the free online version of the book provided them a means of successfully completing the course without making the purchase. Many of these purchases included not only the textbook but also study aids that were bundled together with the textbook for a nominal increased price.

VL Can you talk about online textbooks in terms of advantages they may offer for updating or production costs? Are there also disadvantages to consider?

EF We do not think of ourselves as publishing online textbooks, for the primary reason that many people still do not just want to read online. We think of ourselves as an open textbook publisher that simultaneously publishes our books in multiple formats. The reader can decide which of these formats best suits his or her learning style and budget. With that said, I will outline what I see as some of the advantages and disadvantages of online textbooks.

Among the potential advantages, decreased production costs are actually not a major factor. The cost of making the textbook is still high, as much of that consists of fixed costs (royalties, editorial work, illustrations, etc.). The cost of distribution does come down substantially, which helps lower the final price some. Convenience is a definite plus, with no more big, heavy books to carry. People are increasingly living “in the cloud” and having books stored and accessible there in an “anytime, anywhere” fashion that is consistent with changing lifestyles. Enhanced functionality is another lure. Online books offer full search capabilities; multimedia and assessment can be directly embedded; primary references can be linked; and collaboration between readers is possible. Overall, the potential

for great learning exists within online textbooks. Environmental sustainability is an increasingly important issue on campus. Online textbooks save trees, and dramatically reduce the carbon footprint of the publishing industry. Finally, timeliness is an advantage. As the world changes, the book can change without large numbers sitting in inventory in a warehouse precluding that change.

One disadvantage of digital-only books is that many students still prefer to read offline. After all, print books have excellent resolu-

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tion, are highly mobile and readily transferable, have no worries about battery life, and are DRM-free. In addition, in a digital-only workflow, the potential for decreased quality exists. Long and expensive print runs do have a way of keeping a publisher honest—the cost of fixing something that is wrong is exceedingly high, so publishers strive to have little wrong in the print world. Finally, there is a lot of ambiguity about the longevity of file formats. Print books have a long shelf life. However, ambiguity creeps in around the longevity of digital books.

VL What do you think of initiatives like MIT OpenCourseWare that place online course materials on the web, free?

EF I think they are great. The reason that we named our company “Flat World Knowledge” is that we fundamentally believe that knowledge is the black gold of the twenty-first century. Access

to knowledge is paramount for those who want to improve their standard of living. Technology allows for the free flow of knowledge around the world to those who want it. However, old business models can often prevent that free flow. OpenCourseWare opens knowledge to those who want it; so do open textbooks. Open textbooks add value to open courses because often, open courses reference proprietary books and readings. An open course built around an open textbook is of more potential value to a learner.

VL You have chosen to focus on business and economic textbooks at launch. Was there a particular reason for this?

EF For tactical reasons, we wanted to focus on a single disciplinary area. This would allow us to better leverage our finite resources more efficiently. We chose business and economics because we had strong author contacts there. In addition, the books tend to travel well globally due to similarities in curriculum and the frequency of English language instruction in business programs. Finally, faculty in business and economics think a lot about business models and disruption, and as such, we thought it a receptive place for launch.

VL *Wired* magazine recently reported that you were planning to move into books for general education classes. Are there any prospective books you can tell our readers about?

EF Our pragmatic approach of starting in business and economics was really to stay focused through launch, which we did in spring 2009. We have established that the business can work. We can attract great authors, faculty will adopt, and students will buy. Consequently, we have begun signing authors in nonbusiness and economics courses. To date, we have

signed agreements for titles in algebra, genetics, geographic information systems, psychology, sociology, and college and career success. We will continue to expand our list aggressively.

VL What differences have you observed in the ways different members of the university community (students, faculty, and administrators) respond to the idea of adopting an open textbook? Are you encountering resistance among any of these groups?

EF Taken together, all of the groups you mention are supportive. The exploding cost of textbooks and many of the practices implemented by publishers like faster revision cycles have caused problems for each of these communities. Students embrace the solution with gusto. It provides them with choices of formats they have not had before, and puts them in the driver's seat when deciding how much money to spend, starting at zero. Faculty get a great book, but also get control over the content, so they are excited. They are more cautious, however, and their first response to us is often "Okay, what's the catch?" They assume there must be one, or that the quality of the books will be subpar. When they realize there is no catch and that the books are good, they adopt. Nevertheless, there is a bit of a "wait and see" approach amongst faculty. Now that we have nearly 500 of them using our books, we anticipate faster adoption rates going forward. Administrators are interesting. At so many institutions, when they do exit surveys amongst students, the cost of textbooks comes up in the top three "frustrations" expressed by students. Customer-centered administrators want to solve the problem. They just do not feel they have much control over it, and therefore may not engage as much as the other two groups.

VL Can you talk about ways, including using resources such as Blackboard, in which faculty members can customize your online textbooks for their specific classes?

EF Our open license, which is a Creative Commons Attribution-Noncommercial-Share Alike license, provides the legal foundation for faculty members to do almost anything to our books. They can redistribute it freely, modify it, and add their own materials to it so long as they stay within the bounds of the license.

The entire book reformats on the fly, including a new table of contents, pagination, and index.

We also provide tools on our site to make this easy to do. For example, one can use our interface to create one's own digital "copy," and then move chapters and sections up and down, or delete them. The entire book reformats on the fly, including a new table of contents, pagination, and index. When finished, that modified book is available online free, in print format, etc. We also have tools available today to add annotations or notes. Coming shortly, we will add a full online editor for faculty to actually delete paragraphs, edit them, and add new ones. One of the nice features of being open is that somebody can also use a learning management system (LMS) like Blackboard to point directly to a section of a book with no additional log-in/sign-on needed for the student. Our books can be divided into parts and then reassembled via the course outline in the LMS.

VL There are many new approaches being considered for textbooks, from e-books to Kindle versions to rental models, and more. Where do you see open textbooks in that mix?

EF Ultimately, each of these approaches is trying to solve an existing problem or address a limitation. Rental makes it less expensive, for example, to read a textbook. Kindle may make it less expensive and more portable. E-books might become better learning platforms with the addition of features such as integrated media, assessment, etc. The nice thing about the open model is that it can address all of these things. In the end, I think that open textbooks are the most transformative for two basic reasons. First, they provide the most access for the most people. Second, they fully unlock the potential of content by enabling users to add to them and build upon them. When you open access and unlock latent potential, great things can happen with profound and positive long-term consequences. **VL**