

**Editorial Rant:
Unjust Tiered Pricing Formulas**

Charles H. Smith

In a perfect world one might expect to pay a “fair price” when purchasing any given desired item. The full range of components contributing to a “fair price” are ultimately fairly complicated to detail, but basically these reduce to a function of what the buyer can afford to and/or is willing to pay, as set against the manufacturer’s cost of producing and making the item available. Of course, what is a realistic price under one set of conditions may not be so under another, and it is typical to see rather large geographical variations in the price of products and commodities that must be obtained and used locally. Such variations are considered socially and legally acceptable as long as they do not target specific populations on other than neutral demographic grounds such as age (and even then sometimes not so).

All of this is so straightforward that one wonders why it is that there are so many blatantly unfair—and arguably unprofitable—pricing schemes currently in effect among the producers of electronic information products for libraries. It can only be concluded that information providers have yet to figure out what the salient dimensions of the problem are,

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or how to produce tiered pricing schemes that reflect those dimensions: Both to the extent of serving as many institutions as possible, and maximizing their own profit.

For some years, and increasingly, information providers have been vaguely aware that the students and faculty of larger institutions tend to access their products more frequently than do the students and faculty of smaller ones. This realization led in many instances to tiered pricing schemes based on the number of full-time-equivalent (FTE) students attending the institution. While generally an improvement over non-tiered systems, this approach can also be very unfair (as in the examples given momentarily). In reality, there is only one logical way to effect a universally fair system of tiered pricing, and that is to base it directly on the only two factors that really matter: (1) the size of the library's materials expenditures budget and (2) overall mass and quality of the institution's commitment to research and other kinds of productivity.

It is apparent that whatever additional considerations there may be, the number and variety of information products a college or university library can purchase is strictly limited by the size of its materials budget. What is not so apparent is that there is an extremely high statistical correlation between (1) institutional rank/reputation (as assessed by the *U.S. News & World Report*/studies, and others) and (2) institutional FTE divided through by the number of volumes of books in the institution's library collection. (For example, the ratio between number of students and volumes in the library is about the same for the otherwise vastly differing Harvard University and Amherst College—though the former is much larger than the latter they are about equally prestigious and competitive insofar as student admissions are concerned.) Further, there is a similarly high correlation between rank/reputation and institutional FTE divided through by its library's materials expenditures budget line. This being the case, one can argue that the price-tiering of information products should most efficiently be set as a function of the materials expenditures line (or some close surrogate of same), since the latter can also be used to calibrate the relation "how much an institution is willing to pay to sustain its existing productivity/reputation function within society."

An example will make this clearer. My own institution, Western Kentucky University (WKU) has about 15,000 FTE students (19,000 overall), including about 3,000 graduate students, all in Master's programs. By contrast, Brown University, an Ivy League school, has about half as many students, and supports a goodly variety of PhD programs. Brown's library, meanwhile, is supported by a materials budget several

times the size of ours, with overall holdings extending to at least five times the volume of ours. Despite such resources, in some product price-tiering systems (e.g., as based on number of FTE students only) Brown would be charged less than we would. Is this fair? No, because there is a much greater emphasis there, than at WKU, on research and other forms of productivity directly relatable to the use of information resources. Last year I was approached by the vendors of a product that was actually being used at Brown and a midwestern university very similar to WKU in size and reputation. I asked the product rep to pull up the access statistics for the product from each institution, predicting that they would be similar despite the great difference in absolute size of the two. They were. This was no surprise: The greater emphasis on productivity at the Browns of the world leads their faculty and students to heavier per capita use of such products.

So why not make the largest and more prestigious schools pay what the product is actually worth to them? Meanwhile, a tiering scheme more accurately reflecting this variation in valuation is likely to range wider in its charges, allowing more of the lower end and middle institutions to take part.

One more example. A couple of years ago the Journal *Science* offered its feature title in a campuswide networked online version at an untiered cost exceeding the institutional cost of a single paper subscription by a factor of about seven. For WKU, this meant trying to come up with an additional three thousand dollars over what we were previously paying for the one hardcopy subscription; Conversely, the University of Illinois, which carried several individual hardcopy subscriptions to the title, were actually able to *save* money by going to the networked version. And this, an institution with ten or more times WKU's budget to begin with. Is this either fair or logical?

I admit that over the past few years, price-tierings have moved generally in the right direction in the respects noted, but there are still a lot of refinements that need to be made. There seems to be no reason why tiered pricing schedules could not be based on materials budgets directly, or on the close surrogates for same I have identified. Or, perhaps, there are other surrogates out there that would do just as well (e.g., it turns out that the number of keyword mentions of colleges and universities in large, general-purpose databases such as those maintained in EBSCOhost is also strongly directly proportional to the variables I have discussed). This should be a matter of ongoing concern—and for lobbying—among both providers and institutions, since both as groups are losing out as a result of inefficient specifications.