



Textbook Insights

What is in store for the college bookstore?

Written By:

David DeVito
Research Director
Youth and Education Research
Harris Interactive

Nate Rempe
Director of Internet Strategy
Nebraska Book Company

Abstract

At the same time technology reveals new opportunities for today's college bookstore, it also fuels new competitive threats. Increases in physical and virtual competition, the effects of enhanced consumer awareness, and changes in product delivery methods combine to present a glimpse into the future of a well-established business model on the horizon of significant change. Amidst all the excitement, it seems clear that in order to survive, college bookstores need to focus more on enhancing the in-store shopping experience. The bookstore should then look to publishers and wholesalers to not only provide textbooks, but also complete solutions to combat online sources of competition as a result of new technology. This collaborative approach will position both the supplier and the bookstore for long-term success against common threats and allow for a concentration on the bookstore's core competency—servicing the in-store customer.

This document builds upon publicly released studies of the college textbook industry along with previously unreleased research among students, college faculty, and college bookstore managers across the nation to support and provide insight on new perspectives.

Overview

Stating that change is afoot in the college textbook and college bookstore industries may be considered by some to be an understatement. Once constrained by price, location, and selection, students now feel enabled by a vast online textbook marketplace. In response, some bookstore managers have made attempts at cornering a piece of the online market; others identify and harness aspects of the in-store shopping experience which are unavailable to online consumers,¹ and some managers juggle attempts at both. This disjointed approach seems to pose the natural question: "What does the future have *in store* for the college bookstore?" Ironically, the answer seems to be in the question.

In some bookstores on college campuses today, students are presented with a myriad of options. From Starbucks® to textbooks, these bookstore managers are creating new and innovative approaches to enhance the students' in-store shopping experience in attempt to demonstrate benefits over

online competition.² Research indicates that efforts such as these may be enough to sustain long term viability. The Internet can not duplicate certain brick and mortar advantages, but bookstore managers can not afford to be passive.

It is understood that the Internet is enabling new competition,³ but it is important to understand that the Web is not simply another "bookstore down the street." It is a new breed of bookstore. Zeroing in on the price sensitive and dollar strapped students, this online mass accumulation of virtual inventory provides students greater product selection, along with the ability to effectively buy and sell directly to each other – skewing a once stable demand and supply curve. New applications of Internet based technology are also changing how college courses are being taught, how class materials are being designed, how college textbooks are being sold, and even the value of textbooks in the marketplace.⁴ Colleges themselves are adapting to the needs of this entirely new

¹ According to a Harris Interactive Survey in May 2005, 90% of students identified "Being sure I have the correct book for the course" as the number one factor when deciding where to buy a textbook.

² See *College for Sale: A Critique of the Commodification of Higher Education (Review)*, Penn State University Press, 2000.

³ BISG estimated that sales of used textbooks through online retailers rose 33% in 2004.

⁴ According to a journal published by the Yale School of Management in March 2005 titled "Consumer Benefit from Use of the Internet", evidence has shown that consumer to consumer transactions cause the effective durability of many goods [such as textbooks] to increase.



generation of tech savvy students, the Millennials, who are displaying an unprecedented level of consumer awareness as a result of their willingness to harness an increase in available information.⁵ Enrollments are at an all-time high and the perception of necessity placed on higher education continues to rise.⁶

Amid the already aggressive environment, there is also the issue of increased college tuition costs⁷ which places an additional amount of stress on the college bookstore business. Highly dependent on the sale of textbooks and course materials, college bookstores are caught between a demanding student customer base and a publishing industry that is in the midst of intense competition against the one thing bookstores could use more of – used textbooks.⁸

Studies regarding textbook costs and the practices of the textbook industry have been released by public interest research groups,⁹ industry associations,¹⁰ and even the federal government.¹¹ The debate has been enjoined by those on all sides of the issue, who provide perspectives on how higher education is changing, what the future holds, and what this will all mean for the future college textbook and college bookstore business. The performance and affordability of higher education are important to the current youth generation, and college bookstores play a key role in both.

As is the case in many issues that enter the public arena, research commissioned privately by corporations is often more wide-ranging and illuminating than the research that enters the public's view. Privately commissioned research helps corporations position themselves to meet the needs of a changing marketplace and provides them with

a competitive advantage. Because of this competitive advantage, rarely do corporations release research for public consumption. Nebraska Book Company (NBC) has released the findings included in this document to help the college bookstore industry better understand these issues and to help them position for future success.

Beginning in the spring semester of 2005, the national polling organization Harris Interactive's Youth and Education Research Division conducted a series of survey research studies of the college textbook and bookstore business. These studies were underwritten by Nebraska Book Company, an organization that operates more than 130 bookstores in the United States and serves as a used textbook wholesaler to almost 2,500 college bookstores nationwide. Nebraska Book Company provided input and perspective on the questionnaire design and the interpretation of results, with final editorial control of the content and analysis of the studies resting with Harris Interactive.

To date, information that has been made publicly available on these issues has been primarily from the perspective of those who work in the publishing industry or from public interest groups. This paper shares the viewpoints of key *customers* of the publishing business: college students, college faculty, and college bookstore managers. These are the stakeholders most affected by changes in the bookstore business, and their views are critical to a complete understanding of where the college bookstore business is headed.

This white paper presents new approaches to combat competition and market changes, supported by the sharing of industry findings and implications of comprehensive studies performed by Harris Interactive and Nebraska Book Company.

⁵ See *Consumer Preferences for Communications Media*, Pitney Bowes, April 2005. Release is available at <http://www.postinsight.pb.com/files/ConsumerPreferencesApril7HomePageversion.pdf>.

⁶ See *An Overview of Higher Education in the United States*, American Council on Education, November 2004. Release is available at http://www.acenet.edu/bookstore/pdf/2004_higher_ed_overview.pdf.

⁷ According to recently released reports from the College Board, most students and their families can expect to pay, on average, from \$167 to \$1,132 more than in 2004 for this year's tuition and fees, depending on the type of college.

⁸ According to a Harris Interactive Survey in May 2005, 80% of students buy used textbooks whenever possible to help lessen the costs of textbooks and course materials. 89% of professors believe the newer editions contain only minor changes from previous editions and that students pay higher prices for these slight changes.

⁹ See *Ripoff 101: 2nd Edition, How the Publishing Industry's Practices Needlessly Drive Up Textbook Costs*, The State PIRGs' Higher Education Project, February 2005. Report is available at www.pirg.org/highered.

¹⁰ See *Zogby Nationwide Survey Finds Overwhelming Faculty Support for College Textbooks, New Teaching Technologies*, Association of American Publishers, February 2005. Release is available at <http://www.publishers.org/press/releases.cfm?PressReleaseArticleID=241>.

¹¹ See *College Textbooks: Enhanced Offerings Appear to Drive Recent Price Increases*, Government Accountability Office Report to Congressional Requestors, July 2005. Report is available at: <http://www.gao.gov/new.items/d05806.pdf>.



Summary of Methodology

This paper highlights findings from the following research studies:

- Among college **students**, traditional focus groups and an online bulletin board session were conducted in the spring of 2005. This qualitative research influenced the design of an online quantitative study of 823 college students conducted in April 2005. Unlike studies based on campus intercept methods, an online study of college students is able to provide a broad based sample of students from a variety of institutions. Result data from this approach also contains fewer random and systematic errors because questions are comprehended and controlled by the student respondents at their own pace. The quantitative Harris Interactive approach provides the necessary consistency and depth to capture the highest quality data possible.
- Among **professors/instructors**, a quantitative telephone survey of 400 college professors and department heads was conducted in April 2005. For the purposes of comparison, many of the questions posed to students were posed in a parallel fashion to faculty.
- Among **bookstore managers**, an online quantitative study was conducted among 117 respondents in July 2005. This study represented a variety of bookstores, including stores not affiliated with Nebraska Book Company.

All questionnaires were programmed, hosted, and tabulated by Harris Interactive. Where appropriate, resulting data were weighted to known universe parameters resulting in information that is representative of the broader universes of college students, faculty, and college bookstore managers.

Situation Analysis

It is important to place study results in the proper context. College bookstores face a number of “macro” changes that make today’s business environment unique:

1. College enrollments are at an all-time high and are expected to continue to rise. College enrollments climbed from 13.1 million students in 1988 to 15.3



million students in 2000, and are projected to increase to 18.2 million students by 2013.¹²

2. The enrollment phenomenon goes well beyond demographics: the current generation of college students contains the leading edge of the Millennial generation, considered by many to be a confident, achieving, yet pressured generation.¹³ This is a unique, consumer savvy generation that is more demanding of college bookstores than college students of the past.
3. The college publishing industry has undergone considerable consolidation, and currently five of the largest publishers constitute over 80% of the market.¹⁴ Publishers are the manufacturers of the core product that bookstores sell: textbooks and course materials.
4. Over the past two decades, both college tuition and college textbook costs have risen at a rate considerably higher than the rate of inflation.¹⁵ This has resulted in added pressure from consumers.
5. The emergence of the Internet continues to change the way college courses are being taught and how college textbooks are bought and sold. This technology has the potential to completely transform the college bookstore business.

These macro trends underlie a transformation that is taking place in the college retailing sector. These trends have evolved over time and will continue into the future, and represent a steady and persistent change in the atmosphere for college bookstore businesses. Because macro trends take hold a bit more each day and not as one time events, affected college bookstore managers may not be fully aware of the impact of these trends.

¹² National Center for Education Statistics. See: http://nces.ed.gov/programs/projections/tables/table_10.asp.

¹³ See *Millennials Go to College*, Howe & Strauss, published by AACRAO.

¹⁴ GAO Report, page 5, July 2005.

¹⁵ GAO Report, page 1, July 2005: “...textbook prices nearly tripled from December 1986 to December 2004, while tuition and fees increased by 240 percent and overall inflation was 72 percent.”



The challenge that lies ahead for the college bookstore industry is to adjust to this newfound technological potential. It is not to utilize and incorporate technology for its own sake, but to embrace and integrate its potential into new business models. Today's technology has the power to shape customer needs as well as fulfill them.

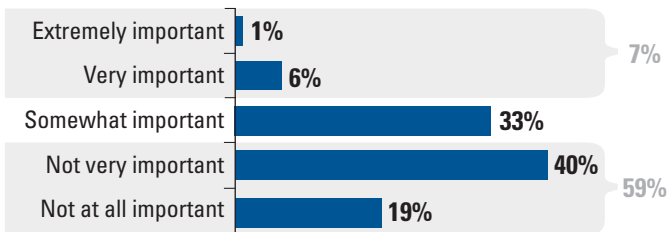
The Harris/NBC studies sought to first understand the perspectives of students, faculty, and bookstore managers on key issues facing the bookstore business. These perspectives were then analyzed and formulated into fourteen key college textbook and college bookstore industry insights. The following insights are presented to help guide bookstores seeking to position themselves for future success.

Insight 1: A college textbook remains central to the higher education experience

The studies clearly show that textbooks remain a commonly required item for courses. Eighty-five percent (85%) of students say instructors *require* textbooks and 12% say instructors *recommend* them. Currently, 94% of college professors state they require a textbook as part of their course.

The textbook currently serves a variety of purposes. Students indicate that it is used as a reference book, to frame lectures, and to provide assignments. Most believe assigned textbooks are indeed used in the course. Yet, despite its widespread use, as a whole students do not believe a textbook is particularly important to their overall course experience.

For the courses you take, how important is a college textbook to the overall course experience?



SOURCE: Harris Interactive study of US college students (n=823), April 2005

Professors are more sanguine about the need for textbooks than are students. Whereas 81% of professors consider a textbook to be an extremely or very important contributor to the overall course experience, just 7% of students think so. Despite the perceptions of professors, students say they

get more out of lectures, discussions, and special readings than they do out of textbooks.

Professors see textbooks as a central part of the course experience. However, professors also see the importance of the traditional textbook as decreasing over time. In total, 3% of professors expect the college textbook to become more important for college courses in the future, while 63% expect the importance of the textbook to stay the same. Thirty-four percent (34%) expect the college textbook to become less important over time.

Insight 2: Bookstore managers should focus on professors as key decision makers

The studies leave little doubt that it is the college professor who decides which course materials will be used. Professors, lecturers and department personnel are highly involved in the decisions of which textbooks and course materials to require for the courses they teach. The decisions are often left to the sole discretion of the professor. Faculty requirements for textbooks are closely heeded by students – Eighty-seven percent (87%) of students will comply with course material recommendations they receive from instructors.

Since professors are not well-organized into buying groups, textbook publishers rely on an extensive network of sales representatives to promote their products. Since students readily comply with professor requirements, the professor becomes the key decision maker in the process.

Despite the attention publishers pay to them, faculty report that the decision-making process is not greatly influenced by publishers' representatives. But publishers do call on faculty frequently: instructors report having been contacted an average of seven times in the past academic year by publishers' representatives presenting a new textbook or edition for adoption. The actual frequency of contact varies considerably by the subject area the faculty teaches. Even after significant attempts by public interest research groups (PIRG) to educate faculty on the effects new textbooks have on student expenditures, professors continue to adopt new editions with small deltas and delay delivery of information regarding the selected titles to bookstores. Eighty-six percent (86%) of professors do not understand that the costs of textbooks for students relate to how early they turn in their textbook orders to the bookstore. According to an updated PIRG 2005 survey report, fifty-nine percent (59%) of students surveyed said they were unable to find a single used textbook for any of their classes.¹⁶

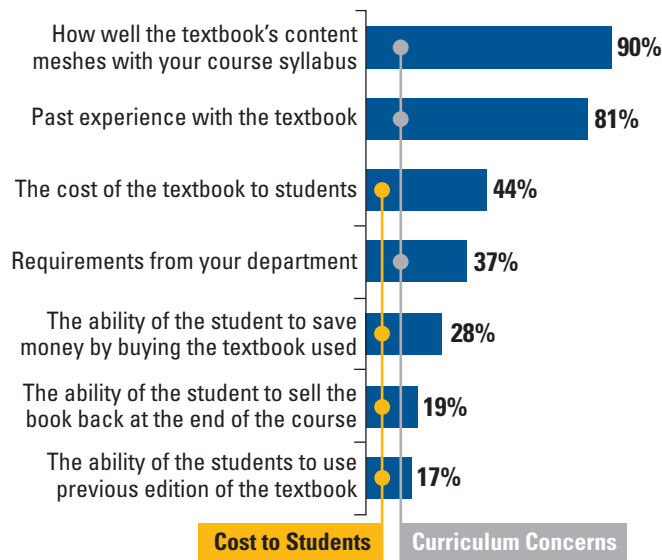
¹⁶ Textbook 'bundling' costs students a bundle. See: <http://www.spokesmanreview.com/local/story.asp?ID=87603>.



Insight 3: Costs are a secondary concern to professors when selecting course materials

When deciding whether or not to consider requiring a textbook for class, the majority of professors consider their syllabus and past experience with the textbook. Curricular concerns drive the course material recommendations they make. Recommendations from other faculty members and the reputation of the author are also somewhat important.

How important are each of the following when you considered whether or not to require a specific textbook for your course(s)? (% Extremely Important)



SOURCE: Harris Interactive study of US college faculty (n=400), April 2005

Professors also consider the cost of the textbook to their students, but cost is not a primary decision criterion for them. Faculty rarely considers the ability of the student to buy a used version or previous editions or to sell the textbook back at the end of the course. Data seems to also suggest that professors do not understand that timely requisition of a selected title is directly related to the availability of used textbooks at the bookstore, raising the price students will pay for the required book.

Students tend to think professors are looking out for the students' financial interests more than they actually are. Three-quarters of students believe professors are at least somewhat concerned about keeping textbook prices low. Forty-two percent (42%) have discussed the issue of textbook costs with their professors. Two-thirds of students

believe professors and faculty can help make textbooks more affordable for students.

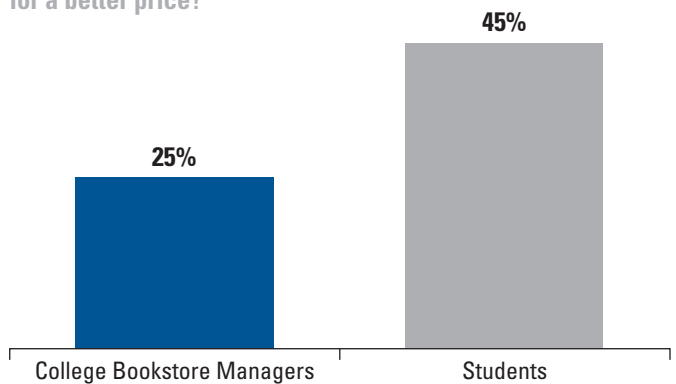
Insight 4: Textbooks and class materials dominate the college bookstore business

The bookstore managers interviewed report that 42% of their total sales come from new textbooks while 26% come from used textbooks. In total, that represents 68% of the total revenue of the college bookstore. On the whole, college bookstore business has been brisk—with 50% reporting an increased level of business in the past year, 27% reporting a decrease, and 23% reporting that business has stayed about the same. The briskness of the business may mask the mounting competitive threats bookstores are facing.

Insight 5: Today's college students are savvy shoppers not afraid to go online to purchase books

Numbering in excess of 71 million and accounting for more than 26% of the population,¹⁷ the Millennial generation is famous for its consumer savvy. Marketed to since birth, today's college students delight in the attention marketers pay to them, and pride themselves on their consumer intelligence. Students will take the time to shop around for textbooks, both in traditional and in online stores. The "average" college student shopped at 1.8 traditional stores and went online twice when buying materials for the most recent term. Textbook shopping is not done in one trip, as students report buying textbooks across a number of time periods and trips.

This academic year, (have you recorded/what percentage of students have recorded) the ISBN number of a textbook so that (you/they) could go to other stores or online to shop for a better price?



SOURCE: Harris Interactive study of US college students (n=823), April 2005
Study of college bookstore managers (n=117), July 2005

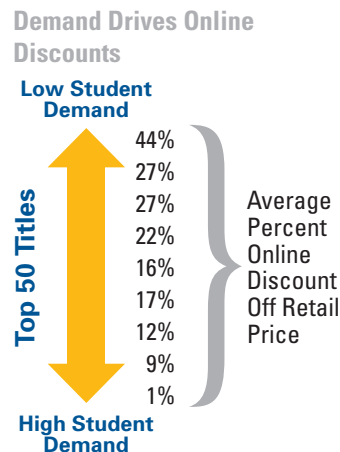
¹⁷ Best Customers: Demographics of Consumer Demand - 2nd ed., Research and Markets, January 2001.



Interestingly, bookstore managers tend to underestimate the shopping smarts of students. For instance, bookstore managers underestimate the number of students who price shop online. Managers believe 32% of students do so while 51% of students report they do so. Similarly, while 25% of bookstore managers say that students record ISBN numbers in their stores so they can go online and shop for a better price, 45% of students told us they do this.

Eighty percent (80%) of students will buy used textbooks whenever possible, in fact, more than half of the students surveyed stated that they try to find textbooks online at a cheaper cost. Twenty-three percent (23%) bought from another student through an online marketplace, 35% thought about buying from an online marketplace, 14% sold their textbooks online to other students, and 35% expect to buy more textbooks online in the future – not to mention the overall satisfaction rate of the online shopping experience was rated *higher* (6.7) than the in-store experience (5.9). There is no question that the Internet is gaining ground with today's students, but this high level

of online satisfaction seems to be based on the *perception* of large cost savings when shopping online versus in a bookstore. When looking at the average listing price on Amazon.com® and Half.com™ of the top fifty titles (identified by the number of total units sold over the course of one semester), significant price differential between the Internet and the bookstore only occurred for textbooks with the lowest student demand. A discount of less than twenty percent on high demand titles may not be enough to overcome the benefits of shopping in the bookstore.



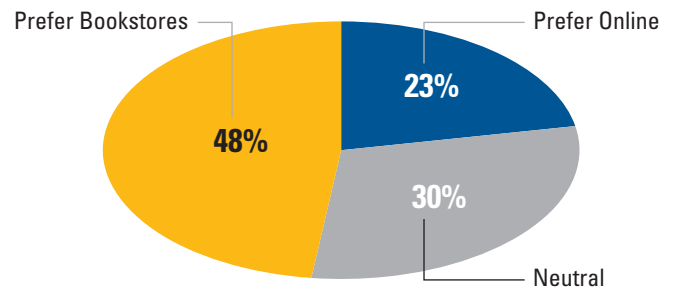
SOURCE: Nebraska Book Company Independent Study; August 2005

Insight 6: Students prefer shopping in bookstores to shopping online

While students have little choice over which textbooks they must buy, they have some choice where they buy

their textbooks.¹⁸ Many students have experience buying both in traditional college textbook stores and buying online. Traditional bookstores remain the preferred source for textbooks: in total 48% of college students prefer bookstores, 23% prefer online, and 30% are neutral. Students continue to favor traditional bookstores because stores are seen as convenient, and because the student can examine a textbook and be completely sure it is the right textbook for their course. There is also a social/experiential element of traditional shopping – many students enjoy the opportunity to get out, go somewhere, shop, see people, etc. That said, online preferences are forming – the 23% who prefer online shopping represent a substantial number of students. Students reported purchasing 16% of their textbooks online in a fall 2004 Student Watch™ report. Thirty-one percent (31%) of those students reported that in addition to buying from online sources that had no affiliation with their school, they also bought textbooks from the website of their local college store. Not surprisingly, the trend to look online is driven almost exclusively by price.¹⁹

Do you prefer to buy textbooks in bookstores or online?



SOURCE: Harris Interactive study of US college students (n=823), April 2005

In the mind of a college student there is a stark contrast between the in-store bookstore and online buying experiences. Bookstores provide an assurance of having the right textbook and returns are seen as easy, if the wrong textbook is purchased. The Internet is seen as offering the best price. Students also believe that it is more likely that they can sell back the textbooks they buy in bookstores than the textbooks they buy online.

Upperclassmen favor online shopping more than underclassmen because they have experience with the process and they aren't as concerned about not getting the correct textbook.²⁰

¹⁸ GAO Report, page 7, July 2005.

¹⁹ According to a Harris Interactive survey in May 2005, 86% of students prefer shopping online for reasons related to price.

²⁰ According to a Harris Interactive survey in May 2005, of college students surveyed, "being sure I get the correct book" was of the lowest importance to seniors when deciding where to purchase textbooks.



They have also learned to trust the online textbook channel over time and, because they tend to be more financially independent from their parents, are more price sensitive.



About a quarter (23%) of students have bought a textbook from a bid or fixed price online auction website. Denouncing the high “hassle factor” of shipping out individual textbooks, 14% of students surveyed have *sold* a textbook at an auction site. Fortunately for bookstores, buyers outnumber sellers

and online prices are pushed upwards. To date, the mediocre price differential between auction sites and the college bookstore, the “hassle factor” along with the limited established trust between buyer and seller within the auction marketplace has stifled large groups of students from selling textbooks online.

Even among those that favor buying online, it is highly likely that they have also actively shopped in traditional outlets. Almost all (92%) students report that they had shopped for textbooks in bookstores. Few students buy exclusively online at this point.

How do students decide where to buy a textbook? First, they need assurance that they are buying the correct textbook for the course. The students that shop online have overcome the fear of buying an incorrect textbook online. Second, price is an important consideration. Students shop around for price.

Nearly all bookstore managers believe online sales have affected their business to some degree. Most say online sales have had a “slight” or “moderate” effect. Although managers see the potential of the Internet, it has not yet materialized as a critical threat to them. Some bookstores previously experiencing consistent growth have begun to see only minor increases in textbook sales, or even subtle decreases. It is critical for bookstore managers to understand *the strong textbook market is masking the effect of increasing online sales.*

Insight 7: Textbook costs for students are lower than commonly perceived

The GAO reports that the average annual cost of textbooks and supplies is \$898 at four-year institutions.²¹ The US

Department of Education estimates the annual costs of textbooks and supplies for a four year student to be \$850.²² The studies reported in this paper suggest these figures, which are widely cited in the industry, substantially overstate the amount students actually spend. Students report that their average annual expenditure for course materials is \$534 – or 57% of the GAO estimate. Bookstore managers estimate students annual spending for textbooks and course materials to be \$636. Professors report that for their courses, a typical student spends \$108 on course materials.

The student study shows course material spending is likely lower than the GAO has estimated. The GAO has relied upon an analysis by the Bureau of Labor Statistics (BLS). The BLS formula for calculating textbook prices is complex and concentrates on *price* and not what is actually spent. For instance, publishers and wholesalers face a challenging logistical task to place the right titles in the right bookstores during a very short buying period. As might be expected, many textbooks end up unsold, and it is unclear if the BLS calculations take this into account. Further, the BLS calculations do not appear to account for used textbook sales or online textbook sales, which are typically ways that textbooks are obtained by students at reduced prices. Students also share textbooks and swap textbooks at little or no cost.

The Harris/NBC study is based on a simpler, perhaps more reliable method – contacting a broad-based, projectable sample of students and asking them about their textbook expenditures.

Insight 8: Textbook costs are a substantial financial burden for students

Even though textbook costs are not as high as commonly perceived, they remain a substantial financial burden for students. According to the GAO study, since 1986 textbook prices have increased by 186%, while inflation has grown by 72%.²³

Students are sensitive to costs. Eighty-five percent (85%) believe new textbooks cost too much while 28% believe used textbooks cost too much. The prevailing opinion among professors is that new college textbooks cost too much (90%), with 45% saying “far too much” and 45% saying “a little too much.” A majority of professors (78%) believe college textbook costs are rising too quickly.

²¹ GAO Report, page 2, July 2005.

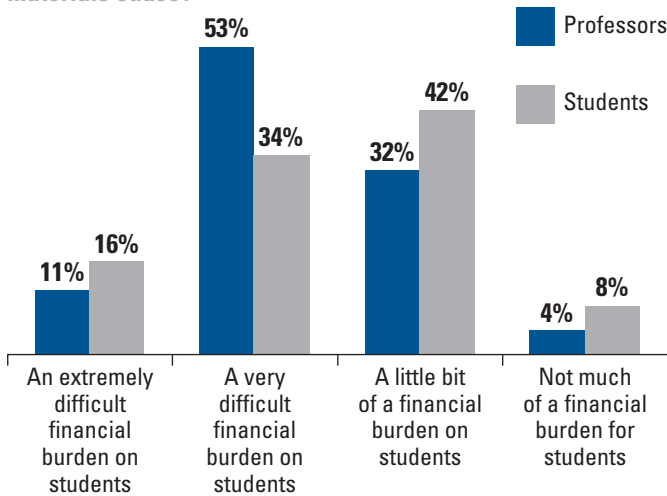
²² National Center for Education Statistics, IPEDS, 2003-04.

²³ GAO Report, page 2, July 2005.



Half (50%) of students state the cost of textbooks and materials causes an extremely difficult or very difficult financial burden for them. Further, there is evidence that because students perceive textbooks to cost too much, they assume that other products being sold by the bookstore are also priced high. Textbook price increases have an effect on everything the bookstore sells.

How much of a burden does the cost of textbooks and materials cause?



SOURCE: Harris Interactive study of US college students (n=823), April 2005
Harris Interactive study of US college faculty (n=400), April 2005

Professors believe the cost of textbooks and materials is a significant financial burden on their students; 64% believe these costs are an extremely or very difficult burden. Professors seem to be aware of this issue. More than half say they have given it “a lot of thought” and 38% “a little thought.” Not only have professors thought about the impact of the cost of textbooks on students, nearly three-quarters (72%) have discussed the issue with their students. However, even though they are cognizant of the burden course material costs cause to their students, professors still decide which materials to use based on the needs of their course and not on student cost concerns.²⁴

How do students deal with this burden? It is the foundation of the used textbook market – 80% buy used textbooks whenever possible to help lessen the costs. Students also report comparison shopping, looking for deals in more than one place, and waiting to buy the textbook until they are sure it will be used in the course. Students are selling their textbooks back at the end of the term to recoup some of their costs. Trying to make do with older editions is not a particularly prevalent activity among students. Some students also share textbooks or don’t buy the textbook at

all. It’s been estimated by some that 10-12% of required texts are never purchased anywhere.

Interestingly, students on the whole believe the increasing prices of textbooks will continue, but that price increases will be at or below the rate of inflation.

Insight 9: High textbook costs are driven by many factors

Trying to determine the causes of the increased costs of course materials is the subject of the GAO report, which provides a summary of the perspectives of industry groups, the publishing industry, and used textbook wholesalers. Suffice it to say, the textbook publishing and distribution business is complex and there is no consensus on why textbook costs have risen as they have.

The Harris/NBC study provides additional insight. Price represents the intersection of supply and demand, and the information available on the issue concentrates mainly on supply-side issues – issues surrounding the practices of the publishing industry.

When we look at the demand side, it is evident that there is little pressure from the consumer marketplace holding the prices of textbooks in check. Students, as a whole, comply with the materials recommended by professors. Professors tend to think primarily about the curricular needs of their course when selecting materials, with cost issues for students being a secondary concern. For instance, 90% of professors say how well a textbook’s content meshes with their syllabus is an extremely important consideration for them. Just 44% believed that the cost of the textbook to students was extremely important, and only 28% believed that the ability of the student to save money by buying the textbook used was extremely important.

Students are apt to place the blame for increased costs on publishers and college bookstores. The number one reason given for the rise in the price of textbooks by students is “the publishers want to make more money;” while the number two reason is “the bookstores want to make more money.”

Most professors (79%) attribute the upturn in textbook prices to increased production costs. Many (70%) also acknowledge publishers’ need to incorporate new technologies, such as CD-ROMs and online access to additional course materials, as a driver of cost. Forty-three percent (43%) of professors report that they believe publishers try to prevent the sale of used textbooks and 68% do not think publishers are doing what they can to help make textbook editions affordable for students.

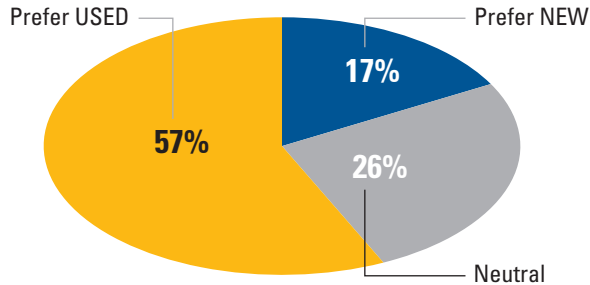
²⁴ Harris Interactive study of US college faculty (n=400) conducted for Nebraska Book Company, April 2005.



Insight 10: Demand for used textbooks is far greater than the supply

The majority (57%) of college students prefer to buy used textbooks. Nearly all professors (98%) have noticed students buying used textbooks whenever possible to reduce costs.

Do you prefer to buy textbooks *used* or *new*?



SOURCE: Harris Interactive study of US college students (n=823), April 2005

This preference for used textbooks grows slightly over a students' academic career. The predominant reason students favor used textbooks is price, although, many also do appreciate having highlights and notes left behind by the previous user. Students that favor new textbooks cite reasons that pertain to the condition of the textbook – they don't like having markings in their textbooks or textbooks that have damage. Students also like to buy new textbooks if they intend to keep it for future reference.

Students are more likely to believe that used textbooks will actually be used in a course. They can review the notes of the previous owner and see those as proof that the textbook will be used. Also, as stated previously, students are far more likely to say used textbooks have good prices.

College students buy about the same number of *new* textbooks (3.4 textbooks per year on average) as *used* textbooks (3.7 textbooks per year on average). Although they report fairly low satisfaction with the shopping experience for textbooks, their satisfaction level when shopping for used textbooks is statistically higher than when shopping for new textbooks.

Being able to find used textbooks is important in that it relates to the price of the textbook. However, when compared to other considerations, the ability to sell the textbook back at the end of the term is *not* a top consideration.

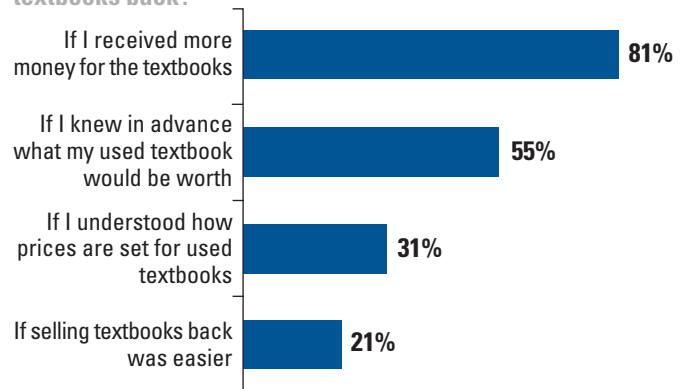


Demand for used textbooks is high, as is frustration when they can't be located. Students are more likely to place blame for the lack of used textbooks on publishers than the bookstore. The demand for used textbooks will continue to grow as the prices of new textbooks continue to rise – used textbooks are typically priced as a percentage of the new price, so the absolute dollar savings obtained from buying used is greatest with higher priced textbooks.

Insight 11: Students are not fully satisfied with their experiences when selling textbooks back

This academic year, students expect to sell back about half (48%) of their textbooks. They tend to sell them back between semesters, although some (29%) will sell them back during the previous semester. Most students (81%) would sell more of their textbooks back if they got more money for them. Given the price sensitivity college students exhibit, the supply of used textbooks would be likely to increase if prices offered at buyback increased.

Which would make you want to sell more of your textbooks back?



SOURCE: Harris Interactive study of US college students (n=823), April 2005.

Students also report some confusion about being able to accurately predict what their textbooks will be worth at sell-back time. Many (55%) would sell more textbooks back if they knew in advance what their textbooks would be worth. It is common for students to get less money than they expect when selling textbooks back (87%), or even to receive nothing for their textbooks (67%). Fifty-one percent (51%) say they do not understand why the bookstore will buy back some textbooks but not others. For a generation of young people that prides themselves on their consumer smarts, they do not like the ignorance they feel in this process.

The main reason given for not selling a textbook back is that the student intends to keep the textbook for future reference.



Not receiving enough money for a title is the second most common reason students keep their textbooks. Students continue to be disappointed at the buyback counter and as a result, one in five (20%) students tried to sell textbooks on the Internet this year, and one in three (33%) expect to try to do so in the coming year. Selling textbooks online is clearly a growing trend.

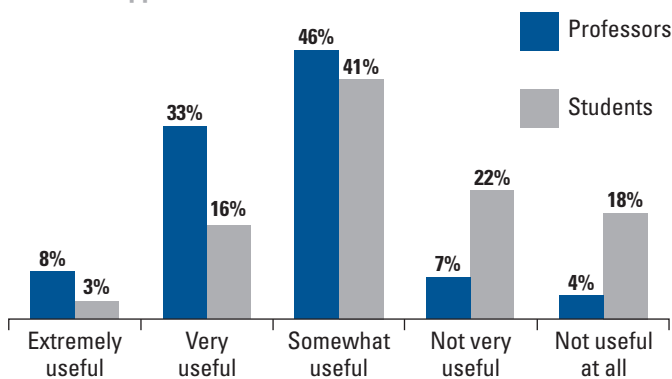
Bookstore managers say on average 70% of the textbooks brought to the bookstore at buyback time are sold to the bookstore. They also say on average 43% of the students who come to sell textbooks back leave the experience dissatisfied. Most (63%) of the textbooks taken in at buyback are restocked in the same bookstore. On average, 36% are sold to a wholesaler.

Bookstore managers believe that they could get students to sell more textbooks back if they could pay higher prices for them, if students understood better how used textbook prices are set, and if students knew in advance what their used textbook would be worth.

Insight 12: Bundling of course materials frustrates students and professors

In total, about two-thirds (65%) of students have unexpectedly experienced bundling – the inclusion of other materials with the textbook. Half (50%) of students were upset with this process but didn't do anything about it, while 12% complained about it. Thirty-eight percent (38%) said unexpected bundling didn't really matter to them. Many students (85%) believe that bundling restricts their ability to sell the textbook back at the end of the term.

In general, how useful are other materials that come shrink-wrapped with textbooks?



SOURCE: Harris Interactive study of US college students (n=823), April 2005
Harris Interactive study of US college faculty (n=400), April 2005

Bookstore managers are likely to believe that the practice of bundling course materials causes them difficulty. Ninety-six

percent (96%) have experienced bundling when they did not expect to. However, most stores (71%) do not separate bundled items and sell them separately. About one in three (32%) bookstores bundle items themselves for courses.

For the most part, publishers' practice of bundling course materials has not taken professors by surprise. While 25% of professors report having discovered a publisher bundled a recommended or required textbook with materials they did not recommend, the majority of professors have not had this experience. Of those who have experienced unexpected bundling, 65% were upset yet only 28% called the publisher to discuss the issue. So, professors seem to know in advance bundling will occur, but the practice often takes bookstore managers and students by surprise.

Seventy percent of professors believe bundling causes the price of textbooks for students to increase and half (54%) report this practice prevents students from selling textbooks back or from obtaining used copies of textbooks. Just 19% of students who have used the ancillary materials that come shrink wrapped with textbooks see them as useful. Professors state the bundled materials included with textbooks in the past were largely of dubious educational value, but that publishers are now producing higher quality bundled material than they used to.

Insight 13: The frequency of new editions is seen as causing prices to rise

Releases of new textbook editions are readily accepted by professors. An industry poll conducted by the AAP suggests a vast majority of professors believe it is important to assign the latest edition of a textbook.²⁵ Faster revision cycles for textbooks result in higher priced textbooks and also serve to decrease the availability of used textbooks, which will tend to be of an older edition.

Most students (71%) believe textbook prices for students go up when new editions come out. However, 44% of the students surveyed in the Harris/NBC study stated, during this school year, they used a textbook that is not the latest edition. Students believe the frequency of new editions causes a problem for them but they do not believe new editions cause significant problems for faculty, bookstores, or publishers.

Most bookstore managers (94%) believe new textbook editions come out too frequently. This frequency is seen as a major problem for them and for students.

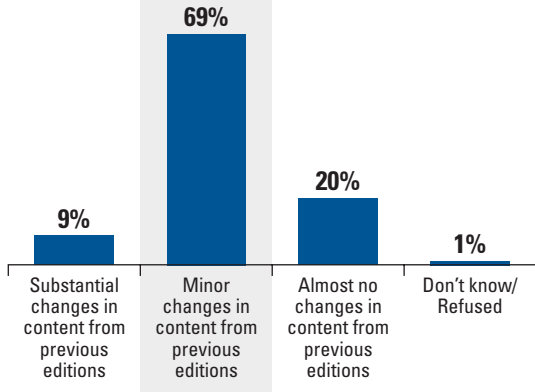
²⁵ AAP study by Zogby International, February 2005.



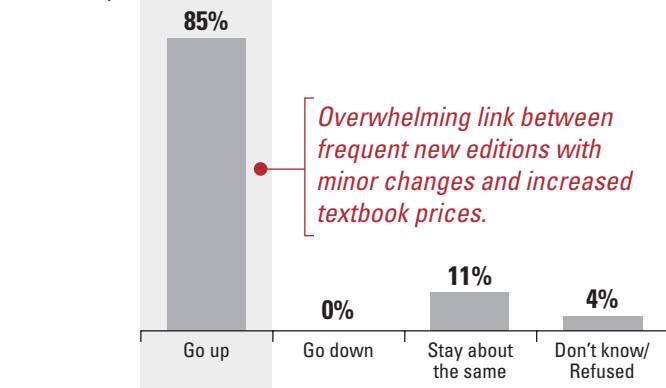
According to professors, the frequency of new textbook editions is a minor problem or not a problem at all for faculty, their departments or publishers. Professors do, however, view the frequency of new textbook editions as a major problem for students and college bookstores.

Frequent New Editions Cause Increased Textbook Prices

Do new textbook editions tend to contain...?



When a new textbook edition comes out, does this cause textbook prices to students to...?



SOURCE: Harris Interactive study of US College faculty (n=400), April 2005

The majority of professors (56%) believe new editions of textbooks are published more frequently than in the past. Fifty percent (50%) believe new editions of textbooks are published too frequently. Most professors (89%) believe the newer editions contain only minor changes from previous editions and students pay a higher price for these slight changes. Ninety percent (90%) of professors believe a new college textbook costs too much, with 45% stating “far too much”. The bulk of professors (68%) do not believe publishers are doing what they can to help make textbook editions affordable for college students.

Eighty-five percent (85%) of professors say they are informed about changes from edition to edition, with 42% being extremely or well informed. Of the professors who are extremely or very well informed about the changes to new editions, 63% get the information from publishers.

So, from the point-of-view of the publishing industry’s customers, the frequent revision cycle is a key cause of the increased costs of course materials for students.

Insight 14: The textbook market will continue to be strong – but the nature of the textbook will evolve

The Harris/NBC studies strongly suggest the role of textbooks will change, but the change will be gradual and not a one-time event. About four in five professors (84%) expect to use textbooks in the future at the same level they do today. While many professors see the role of the textbook changing and many expect to use supplemental, digital materials to a greater extent, few are predicting the demise of the traditional textbook.

The majority of professors expect textbook prices to rise and many expect more committees will form to address increasing costs. The majority of professors believe college bookstores will increasingly focus on merchandise other than textbooks, and they expect an increasing demand for, and availability of, used textbooks and course materials.

Most professors expect publishers will continue to revise textbooks more often than they do today, and they expect the Internet to play a bigger role in the next five to ten years.

From the student perspective, what will the future look like for college textbooks? About half of students (52%) believe college textbooks will stay at about the same level of importance as they are now, while 38% think textbooks will become less important for college courses.

In the future, students expect they will be more likely than they are today to seek out used textbooks and there will be a greater supply of used textbooks. They do not expect that textbooks will be “rented.” Students expect the trend of more frequent textbook revisions to continue. They do not expect publishers to begin to sell directly to students, nor do they expect publishers to scale back the amount of bundled materials they include with textbooks.

According to students, the Internet will take on an increasing role – more course materials will be downloaded from the Internet and students see a day where they will buy the majority of their textbooks online. Although students expect



to buy textbooks online more commonly, they do not see the college textbook as “dying” over time. They do not expect a decreased emphasis on textbooks, and 67% say having “no such thing as a college textbook” will never happen.

As we have found with other groups, college bookstore managers expect the traditional college textbook to survive. They expect students to become more active in looking for used textbooks, more materials to be available online, and that materials will become more customized to the institution and course. They also believe publishers will start to sell textbooks directly to students online.

Conclusions: College bookstores can thrive in a world of increasing online competition

This is a frightening yet exciting time for college bookstores. Advances in technology will not just make competition fiercer; it also has the potential to open up new avenues in the industry that have never been pursued before. The college bookstore, as the primary end user distributor of course materials, will need to embrace new applications of technology and new business process in the same way. As in any business, it will be important to think and act differently. Increase environmental awareness by identifying competitive threats, combat online competition through collaboration and supplier partnership, eliminate channel conflict – representing one of the largest impediments to the success of the industry, educate the consumer and boost customer loyalty.

Identify Competitive Threats

The Harris/NBC study of bookstore managers showed the threat of new competition is very real and will continue to grow. Bookstore managers see textbooks and course materials as the lifeblood of their business and *competition* as the biggest threat to their existence. Competition is seen as a larger threat to the bookstore than increasing textbook prices or changes in the nature of course materials. While in the past a bookstore may have had to worry about a few local competitors, the Internet has opened up the competitive base significantly. Increased numbers of individuals and organizations continue to enter the now practically barrier free online textbook market.

Online booksellers are seen as a bookstore’s key competitors.²⁶ Perhaps surprisingly, bookstore managers did not mention as much concern toward the high impact Amazon.com® or Half.com™ auction marketplaces. There should be concern. The relationship between a bookstore and a textbook wholesaler is a linear supply chain model where one key variable, the supply of used textbooks, sustains the relationship. Students buy textbooks and sell them back to the bookstore, and the wholesaler buys and sells the excess – a controlled cyclical process. Yet, as an increasing number of students continue to move away from the bookstore in favor of the online bid or fixed price auction marketplace, the core supply chain becomes stressed. A once abundant flow of used textbooks has begun to show signs of shortages due to factors external to the bookstore and wholesaler. Students are now supplying other students with textbooks, effectively removing both the bookstore and the wholesaler from the equation. *The reduction in sales and supply of used textbooks as a result of the online bid or fixed price auction marketplace should be viewed as the largest competitive threat to both bookstores and wholesalers.*

Combat Online Competition

Bookstores report the best way to combat online competition is to improve their own online offerings. The Harris/NBC study indicates that some college bookstore managers may be failing to see they can directly compete with online threats by *concentrating on elements of the in-store buying experience that are competitive advantages for them.*²⁷ Instead, managers seem to believe the way to stay competitive is to somehow beat the online merchants at their own game. This is most likely attributed to media attention toward online bookselling and the reality of missed sale opportunities to students shopping online.

Sensationalism aside, there is no doubt the physical college bookstore has elements a website can not offer. Students prefer the bookstore to online shopping for reasons related to convenience, the ability to examine textbooks before purchasing them, and the assurance they are buying the right textbooks for their course. *Bookstores must capitalize on existing student preference by identifying competitive advantages over the Internet and promoting these elements in the store.*

²⁶ According to a Harris Interactive Survey in May 2005, 97% of bookstore managers identified “Online Booksellers” over “Online Auction Sites” as the most significant competitor. 70% identified “Online Auction Sites.”

²⁷ According to a Harris Interactive Survey in May 2005, 40% of bookstore managers identified “Offering or Improving Online Sales” as the most effective way to combat increases in online textbook sales.



Bookstore Versus Internet: Advantages According to Students

	Bookstore	Internet
Convenience	✓	
Can Examine Books	✓	
Assurance of Buying Correct Book	✓	
Customer Service	✓	
Price		✓

SOURCE: Harris Interactive study of US college faculty (n=400), April 2005.

Eliminate Channel Conflict

Most bookstore managers expect publishers and wholesalers to get into the business of selling textbooks directly to students online. They think most wholesalers are already doing so, and in fact, they are correct. Two of the top three major wholesale textbook distributors have recently implemented, and are currently running, web applications to buy and sell textbooks directly to and from students.²⁸ This has revealed an enormous potential for “channel conflict” where wholesalers compete with bookstores, whom they rely upon as both suppliers of used textbooks and as customers. It is very possible that this channel conflict could unravel what has traditionally been a collegial relationship between wholesalers and bookstores. In fact, approximately two out of three (66%) bookstore managers said they would switch to a new wholesaler partner if their current wholesaler was selling used textbooks directly to students. Channel conflict between wholesalers and bookstores negatively affects the industry as a whole, causing intra-channel reproach and ultimately hurting bookstore textbook sales.

Partner for Success

Because of the basic nature of a vendor/supplier relationship, it is unreasonable to think the bookstore industry can flourish without the technical and strategic help of its core product supplier. *A collaborative approach between bookstores and wholesalers without channel conflict is a necessity to ensure success.* Together, they have considerably greater resources and competitive advantages which can help to overcome the online competition that directly affects both entities. Online bookselling has the potential to gain significant market share over the next few years, and with cooperation as the vehicle, the industry can realize stability in the market share that

traditional bookstores achieve. Your bookstore needs to be a part of this realization.

Educate and Increase Customer Loyalty

More and more students continue to make purchases based upon price point rather than convenience, brand and school tradition. Because the non-advantageous differences in supply chain and operating costs between the single channel online bookstore and the physical bookstore make it very difficult to compete with the Internet on price, it is becoming more important than ever to take measures to educate students about the clear benefits of shopping in the bookstore. *Bookstore staff should view every customer interaction as an opportunity to provide education about the benefits of the in-store shopping experience such as examining textbooks before purchase, higher levels of customer service, loyalty card rewards, and student centric return policies.* In addition to students, faculty should also be informed about the effect their actions have on the textbook expenditures of college students. Studies have shown that presenting faculty with information on steps that can lower textbooks costs has a dramatic effect on the ratio of used to new adopted textbooks in the bookstore. Start educating your customers, both faculty and students, and begin realizing increased textbook sales.



It is difficult to predict specifically how the used textbook market will play out, but the general scope is not difficult to see. Online transactions will eventually play a significant role in the growth of the college bookstore industry and

bookstore managers need to get into this new market, quickly, yet **effectively**, while core focus remains in the store. Once the business is ceded to the online booksellers, it may prove challenging to retrieve market share. At the center of an ultra competitive retail textbook market environment, where online and offline organizations continue to battle for scarce market share, both bookstores and wholesalers will soon realize the path to success is a collaborative one. They rely on each other now for success, and it is critical they continue to into the future.

²⁸ See Follett's "Textbooks Now" <http://www.textbooksnow.com>, Follett's "Buyback.com" <http://www.buyback.com>, and MBS Direct's "Study Tactics" <http://www.study tactics.com>.



Nebraska Book Company's Solution

Like all wholesalers, Nebraska Book Company faces similar competitive threats as the college bookstore. Amidst market changes, Nebraska Book Company continues to believe that the college bookstore is their only customer. Through intense research and analysis, they believe that a comprehensive solution encompassing Internet *and* brick and mortar strategies is needed to help bookstores move successfully into the future and sustain long term viability. Nebraska Book Company, as a core product supplier of the college bookstore channel, is in an excellent position to provide this expertise.

As a result, Nebraska Book Company has developed an integrated, store focused solution to help college bookstores achieve success. The solution is a multi-faceted "competition response program" created by industry experts and Internet strategists to support bookstores in their in-store and online efforts.

Nebraska Book Company provides *products and services* in three (3) areas to free college bookstores to focus more effectively on their in-store customers and become successful online retailers in the variable Internet marketplace with significantly less effort. Participating bookstores are free to use one or more of the elements to better equip themselves in the battle for market share.

Bookstore Support Services

This whitepaper stresses that bookstores must support and encourage the elements of the textbook buying process students value and online merchants can not match. Our store focused program offers consulting services and knowledge sharing opportunities to support and develop these elements. Some of the services offered include:

- **Knowledge sharing and consulting.** Participating bookstores will have access to exclusive keynote sponsored web casts on bookstore industry best practices, online and offline forums moderated by Nebraska Book Company experts, and resources providing strategic guidance and answers to common questions.
- **Local and national user groups.** Nebraska Book Company user groups function both as a networking opportunity and a source of new information. Bookstore managers can pool knowledge and experience to discuss proven techniques to increase market

share in their corresponding areas. Specific topic focused breakout groups serve as a central point for training sessions, identifying and discussing industry issues, and participating in strategy planning exercises. Nebraska Book Company user groups are an excellent tool to assist bookstores in reaching maximum performance.

- **High quality marketing services and promotional tools.** Nebraska Book Company marketing services and tools can help bookstores more effectively reach students on campus, build brand awareness, boost traffic and increase sales. Posters, brochures, postcards, advertising samples and other innovative marketing tactics, such as interactive kiosks and television banks can give bookstores a lively, modern look.

Our bookstore support services help bookstore managers more effectively harness in-store competitive advantages.

Comprehensive Internet Strategy

College bookstores must intelligently move into the online space, realizing that, on an individual level, it is very unlikely they will have the resources or expertise to successfully compete on the Internet.²⁹ Comprehensive Internet strategy tailored specifically to the individual bookstore will help to minimize the impact of online competition. Our integrated, store focused solution contains the following elements to assist bookstores in their online efforts:

- **An online promotion strategy geared toward the traditional college bookstore.** Nebraska Book Company is building an online promotion network that will provide participating bookstores demographically-targeted advertising and awareness on a number of strategic partner websites participating in the Nebraska Book Company network. As a result, bookstores can instantly realize an increase in the amount of traffic to their local websites.
- **A highly usable, managed web storefront.** More than four years ago, Nebraska Book Company created a turnkey retail web application for bookstores to provide an easy way to sell in-store inventory and virtual brand name merchandise over the Internet. The product, CampusHub, offers students the ultimate shopping experience: the opportunity to buy textbooks and other

²⁹ According to a Harris Interactive Survey in May 2005, 30% of bookstore managers surveyed said that their bookstore does not have a website where students on their campus can buy textbooks. Of the 70% with a website, on average, only 10% of sales funnel through the online channel.



products and services from their store 24 hours a day, seven days a week via the Internet. As part of our integrated solution, Nebraska Book Company is enhancing the CampusHub product. This enhancement will ensure increased web traffic, as a result of our partner network, generates an increase in sales. Enhancements include increased usability, functional design, a fresh and attractive look, search engine optimization, continuous customer satisfaction monitoring, and practically maintenance free administration.

- **Secondary revenue generation.** As has been our history, Nebraska Book Company has always and will continue to look for new opportunities to assist in keeping the bookstore industry profitable. Our staff will help you leverage trends and identify new opportunities to keep your store at the forefront of this industry and ensure your continued success.
- **Knowledge sharing.** Participating bookstores will have access to Internet focused web based discussions and forums moderated by Nebraska Book Company staff, keynote sponsored web casts discussing best practices for online bookstores, local and national focused user groups, strategic guidance and consulting based resources to assist bookstores with tuning online operations.

Industry Education

Efforts are underway to educate faculty, students and the general public on the reasons behind the increasing costs of textbooks. In addition, Nebraska Book Company is encouraging publishers to make textbooks cheaper by supporting unbundling and extending the life span of editions. In association with local PIRG groups and the “Make Textbooks Affordable” campaign

(<http://www.maketextbooksaffordable.com>), research and marketing material with information on these important issues will be distributed to your local students/faculty and made available to participating bookstores in order to assist in raising awareness on the true cause behind increased textbook prices.

It is time for bookstore managers to take advantage of new opportunities, start competing in new ways, and take an active role in redefining the industry. The Harris/NBC study indicates this new solution will garner substantial support within the college bookstore industry. When asked who future players will be in selling textbooks online, bookstore managers were most apt to say publishers and wholesalers will get into the game. Few bookstore managers are excited about this channel conflict, saying they would switch to a new wholesaler partner if their current wholesaler was selling used textbooks directly to students. Most wholesalers are *already* selling direct, but Nebraska Book Company will continue to focus on the bookstore, not its customers.

As increased numbers of individuals and organizations continue to enter the now practically barrier free online textbook market, there is no better time to put our bookstore focused solution to work for your store.

For more information on Nebraska Book Company’s new store focused solution, contact your Nebraska Book Company sales representative at 1.800.869.0366. For more information on the CampusHub product, visit <http://www.thecampushub.com>.