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Flat World Knowledge and the College Textbook Market: A Revolution?

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Eric Frank, co-founder and president of Flat World Knowledge, Inc., was sitting at his desk having second thoughts about his business model. He had spent the last few years claiming that Flat World would revolutionize textbook publishing. In some respects, the company seemed to be fulfilling that promise. For example, Flat World was now recognized by many in the textbook industry as the largest publisher of free and open college textbooks in the world. On the other hand, when examined more closely, many aspects of Flat World's business approach were fairly traditional. Eric was beginning to think that he and his top management team needed to devote some time to reassessing Flat World's business model.

It was clear that the college textbook model was dysfunctional in a number of respects. For example, although college faculty typically decided which textbooks would be adopted, students were responsible for purchasing them. The separation of the purchasing decision and responsibility for payment created an unusual competitive dynamic that many believed was primarily responsible for the rapid rise in the price of textbooks. Publishers blamed the used textbook market, and more recently, the rental market, for forcing them to speed up publication cycles and increase the frequency of new editions, which caused headaches for both faculty and students. Students routinely complained that publishers were more concerned about satisfying the demands of faculty than serving their interests. Local and state government had begun commissioning studies, issuing reports, and proposing legislation designed to address many of these concerns.

By positioning itself as a revolutionary new player in the college textbook market, Flat World seemed to be assuming some responsibility for addressing some of industry's dysfunctions. This raised two questions. First, was Flat World's business model revolutionary enough to make a difference? And second, assuming that Flat World were capable of addressing some of the problems in the college textbook market, did it make financial or strategic sense to do so? Venture capitalists and other individuals had invested more than $25 million in Flat World. These investors were more concerned about a return on their investment than contributing to the general well-being of the college textbook market.

Put simply, Eric needed to address two questions: How revolutionary could Flat World be? and How revolutionary should Flat World be?

The College Textbook Market

The college textbook market was an important segment of the book publishing industry (NAICS 51113). Key industry segments included textbooks (including elementary, secondary, and the college textbook market), in addition to professional and technical books, other books, other related services, and children's books (Kaczanowska, 2012). Industry revenue was projected to be approximately $30 billion in 2012, with the textbook segment representing approximately 25% of that total. The college textbook market represented approximately $4.5 billion in revenue, or approximately 75% of the entire textbook market ("College Sales Climb," 2010). The sale of new textbooks represented approximately 75% (or $3 billion) of the college textbook market (Gallagher, 2011).

In 2010, the leading college textbook publishers were (in order of textbook units sold): Pearson, Cengage Learning, McGraw-Hill, Macmillan, Elsevier Science, John Wiley & Sons, W. W. Norton, Oxford University Press, Kendall/Hunt, and Alfred A. Knopf ("Sales of College Textbooks," 2011). In the 1980s, the college textbook market was characterized by monopolistic competition with the three largest publishers accounting for approximately a third of college textbook sales. By the early 2000s, significant consolidation had occurred and the college textbook market had evolved into an oligopoly dominated by Pearson, Cengage Learning, and McGraw-Hill (Carbaugh & Ghosh, 2005). These three companies controlled between 50% and 60% of the new college textbook market ("Sales of College Textbooks Units," 2011).

The remainder of the college textbook market was divided up among smaller publishers, like Macmillan, Elsevier Science, John Wiley & Sons, W. W. Norton, Oxford University Press, Kendall/Hunt, and Alfred A. Knopf. These smaller publishers tended to focus on specific niches and particular subject areas. The Oxford University Press, for example, although it only controlled a little more than 1.5% of the new textbook market (based on new unit sales), distinguished itself by focusing on scholarly reference books ("Sales of College Textbooks Units," 2011). Similarly, W. W. Norton was widely recognized for its literature anthologies that are often required reading in university English courses.

Primary Relationships

Figure 1 depicts six important relationships that characterized the textbook market.

First, there was the relationship between the publisher and the author (see #1 in Figure 1). Viewed simplistically, this relationship involved the exchange of educational content, written by the author, for a stream of royalty payments from the publisher. Although publishers paid authors to generate textbook content, they also incurred significant upfront development and marketing costs. In some cases, these costs exceeded $1 million per textbook (Koch, 2006). For authors, the process of writing a textbook was often a significant commitment of time and energy. It was not unusual for an author to spend two or three years writing the first edition of a textbook. In addition, authors were often required to commit upfront to an ongoing revision schedule. In most cases, authoring a textbook represented more of a long-term collaborative process between the author and the publisher than an arms-length market exchange. Because of the long history of

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textbook publishing, this relationship was often governed as much by long-standing mutual expectations and norms as it was by explicit contractual agreement.

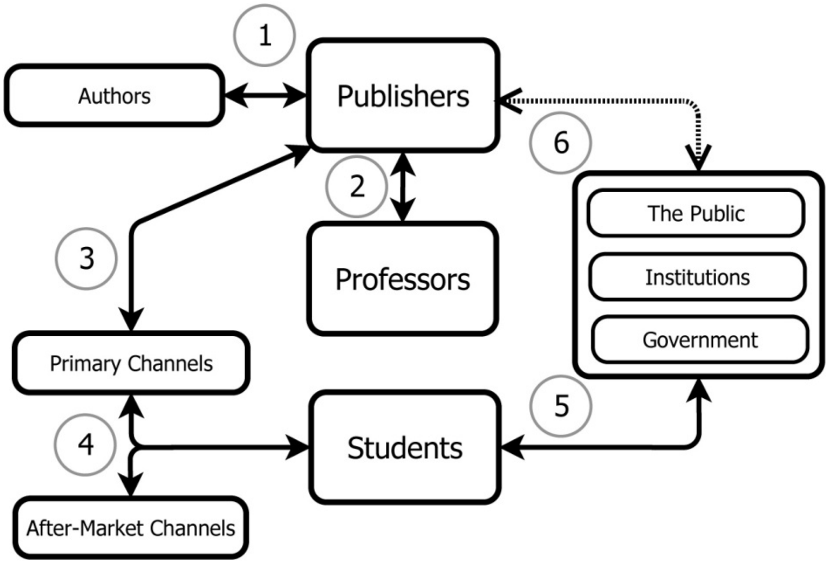

Figure 1. Primary relationships in the college textbook market. 1: Publisher - Author, 2: Publisher - Professor, 3: Publisher – Primary Channel, 4: Primary Channel – After-Market Channels, 5: Student – Larger Groups & Institutions, 6: Larger Groups & Institutions – Publishers.

The second relationship represented in Figure 1 (see #2) involved publishers and those individuals at educational institutions that made the decision to require specific textbooks for use in particular classes (i.e. the individuals that made textbook "adoption" decisions). Typically, these individuals were the professors (or other faculty) assigned to teach the specific courses in which the textbooks were to be used. Although in some cases` faculty committees made the textbook adoption decision, the majority of the time this decision was made by individual faculty. According to Koch (2006), for example, this decision was made individually 90% of the time.

Faculty generally took the adoption process seriously. Because teaching evaluations were often a significant component of faculty performance evaluations, and the student educational experience was often shaped in important ways by the required textbook, faculty often devoted significant time and energy to the adoption decision. Factors often considered by faculty included ease of use, appropriateness of the text given course objectives, availability of ancillary materials, such as test banks and PowerPoint slides, familiarity with prior editions, availability of student study aids and other student content, and the relationship with the publisher representative.

It was customary for publishers to make company representatives available to faculty to aid them in this process. These representatives served a function similar to government lobbyists in the

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sense that faculty often relied on publisher representatives (or "book reps") to simplify the adoption process by providing them with information and advice. It was also customary for publishers to provide complimentary "examination" copies of textbooks to faculty in order to facilitate this process.

The relationship between textbook publishers and the retail textbook channel is the third relationship depicted in Figure 1 (see #3). Textbook publishers generally distributed textbooks through wholesalers. The wholesale market in textbooks was dominated by four companies: Follett, Barnes and Noble, Nebraska, and College Bookstores of America. These wholesalers also owned or operated a significant number of college bookstores (Koch, 2006). The National Association of College Stores estimates that there were approximately 4500 stores dedicated to the college market (National Association of College Stores [NACS], 2012). As of 2006, approximately 50% of these stores were owned and operated by universities, 35% were controlled by wholesalers, and the remaining stores were private and/or independent. New textbooks were also available through different online stores, including Amazon.com and other websites, such as bigwords.com, campusbooks.com, chegg.com, and abebooks.com. A number of retailers, both physical and online, also participated in after-market channels by selling used textbooks and/or renting textbooks (see #4 in Figure 1).

Publishers were faced with the challenge of persuading university faculty to adopt their textbooks and then making sure adoption information was communicated appropriately to the retail channel so that they could correctly anticipate demand and make sure that required texts were available for student purchase. Rapid changes in information technology were changing the way in which textbook content was being delivered to students. For example, in 2007, five of the largest textbook publishers founded CourseSmart to jointly develop and distribute textbooks in electronic format (e-textbooks).[1]

Regardless of changes in the distribution process (i.e. whether distribution was accomplished via physical textbook or in electronic format), when new textbooks were purchased authors and publishers received revenue from the sales. This was not true when sales occurred in after-market channels. The after-market channels involved exchanges in which the author and/or publisher derived no revenue, and included both the used textbook market and the rental market. The used textbook market was dominated by textbook wholesalers, such as Follet, Barnes and Noble, and Nebraska, who purchased used textbooks directly from students and then resold those same books back to students in their own stores (or sold the books to other retailers). As of 2010, used textbooks represented approximately 30% of the approximately $4.5 billion textbook market.

Textbook rental programs continued to increase in popularity. By some estimates, in 2010, textbook rentals represented 5% of the college textbook market (Reynolds, 2011). The two leading rental companies were Chegg and BookRenter, and they were joined in 2010 by Barnes and Noble. Recent robust growth in textbook rentals was cited as a contributing factor for softer than expected new textbook sales ("College Textbook Sales," 2011).

The efficiency of after-market channels worked to shorten the time-frame during which publishers of new textbooks could hope to recover their upfront costs. A rule of thumb in the

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industry was that by the second year of a new edition of a textbook, 50% of sales would take place in after-market channels; by the end of the third year, sales of new copies of recently introduced textbooks would have declined by 75% (Carbaugh & Ghosh, 2005).

The fifth relationship highlighted in Figure 1 involved the public, government, educational institutions and students (see #5). When students obtained college degrees, the students themselves benefited directly, but there were also social benefits that accrued to third parties (e.g. businesses benefited from an educated work force, etc.) and to society in general. In this sense, a college education is both a private and a public good. Because many of the benefits of education accrued to other parties, students attending public universities were generally only required to pay a portion of the costs of their education. The general public, through various subsidies, paid the remainder (Stiglitz, 2000).

The rationale behind subsidizing college education was relatively straightforward. Students, as rational consumers, could only be expected to weigh private benefits (i.e. the direct benefits to themselves) against the costs associated with their education. If a hypothetical student valued a college education at $16,000 and it cost $20,000, then the student would not elect to attend college, even if doing so would provide $5000 of social benefit. In this case, from the perspective of the general public, if a $4000 subsidy would be sufficient to induce a student that would otherwise not pursue a college degree to do so (by lowering the cost to the student from $20,000 to $16,000), then society would come out ahead (given that $5000 of social value would accrue to the general public).

Subsidies for college education were provided in a number of ways. The federal government, for example, included a provision for funding public education in the Land Ordinance of 1785, and the Morrill Acts of 1862 and 1890 laid the foundation for the establishment of land-grant universities by individual states. More recent methods of subsidizing higher education have included direct subsidies to universities in order to lower tuition costs to the student, Pell Grants, loan programs, such as the Stafford Loan Program, the Federal Work-Study Program, and tuition tax deductions and credits (Stiglitz, 2000). The primary purpose of these subsidies is to create social value by lowering the direct cost of college for individual students, thereby increasing the overall demand for education.

The relationship between the public, educational institutions, government and textbook publishers is the sixth relationship depicted in Figure 1 (see #6). The subsidies provided by the general public made the public an important stakeholder in higher education, and indirectly, in the market for college textbooks. There was concern that subsidies intended to increase demand for education were being diverted to the bank accounts of textbook publishers. In other words, there was concern that textbook publishers were benefitting inappropriately from subsidies intended to increase the affordability of higher education. Because of this, there was increasing pressure on publishers to control the cost of textbooks.

A Broken Market?

The college textbook market was described by many observers as “broken.” As one commentator put it, “it would be difficult to find a more ossified corner of the media industry than the college textbook publishing sector, which is essentially a monopoly controlled by three huge companies that no longer serve any of the constituencies particularly well” (Weir, 2009, para. 1).

The textbook industry stood accused of overcharging “a captive audience (students) for needlessly thick, poorly edited tomes,” failing to adequately compensate academic authors that provide the content for these textbooks, and needlessly causing faculty (and students) headaches by releasing new editions “filled with unwanted bells and whistles, on a falsely sped-up publication cycle” (Weir, 2009, para. 1). Of these complaints, cost was the primary focus. According to a 2005 study prepared for the Government Accountability Office (GAO), the cost of college textbooks increased at nearly twice the rate of inflation between December 1986 and December 2004 (United State Government Accountability Office, 2005).

More nuanced criticism of the industry suggested that all market participants were “responding to incentives that are not of their own making” (Pecorino, 2006, pg. 338). Although the actions of each market participant appeared reasonable, these actions, when summed, resulted in inefficient, and in many ways, dysfunctional market-level outcomes.

In the college textbook market “the primary individuals who choose college textbooks (faculty) are not the people that pay for those textbooks (students)” (Koch, 2006, p. 1). The separation of the purchase decision and payment contributed to a number of the structural characteristics and idiosyncratic practices. Because college faculty generally decided what textbooks and other materials would be used in their courses, they played a key gatekeeper role in the college textbook market. In other words, competition in the textbook market forced publishers to ascertain and then satisfy faculty needs rather than student needs. Student needs were addressed only to the degree that faculty recognized those needs and factored them into the purchase decision.

Scrutiny of profits in the college textbook market, for example, revealed no clear scapegoats. For each $100 textbook sold, on average, $32.1 went to editing and manufacturing costs, $15.3 to marketing costs, including field staff and examination copies for faculty, $11.6 to author royalties, $10.8 to retail channel employee costs, $9.9 to publisher’s general and administrative costs, including federal, state, and local taxes, $7.2 to retail channel expenses excluding employee costs, $7.0 to publisher income, $4.4 to retail channel income, and $1.7 to freight companies (Bell & Badolato, 2008).

For authors, writing a textbook represented a long-term commitment of time and effort. In the vast majority of cases, even though competing textbooks often included similar background information, the author or authors of each textbook had to begin from scratch. There was no mechanism, for example, that would allow authors to collectively create a shared core of standardized educational content for a specific subject area that could then be customized or differentiated to meet the specific needs of professors with different teaching philosophies or to satisfy the needs of different types of students. Because textbook writing was a difficult and time-consuming task, the royalties demanded by authors did not seem unreasonable.

Publishers, for their part, were obligated by their pursuit of shareholder returns—given that they were for-profit entities—to satisfy the needs of the individuals that made textbook adoption decisions. These individuals, for the most part, based their decisions on factors other than price. In many instances, financial pressures forced institutions to employ increasingly large numbers of part-time faculty and to simultaneously increase teaching loads. Increased teaching demands, together with opportunities for the pedagogical enhancement of teaching materials afforded by advances in information technology, at least partially explained the demand for elaborate packages of teaching aids and instructor support materials.

Given existing financial pressures, universities had an incentive to monetize their geographical proximity to students by either running their own university bookstores or by "selling" the right to do so to for-profit companies in the form of management contracts.

Given the high cost of textbooks, student patronage of after-market channels was understandable. In many instances, students often found ways to avoid purchasing required textbooks altogether. A recent survey, for example, suggested that as many as 70% of college students had, on at least one occasion, decided not to purchase a required textbook because of its cost (Grandoni, 2011). Fewer new textbook sales, however, increased pressure on textbook publisher to increase prices in order to recover upfront development and market costs.

The public was clearly concerned, as a stakeholder in higher education, about the possibility of their subsidies being appropriated by textbook publishers in the form of inflated textbook prices.

Although a $250 biology textbook seemed like prima facie evidence of market dysfunction, observers pointed out that comparing textbook prices over an extended period of time may be misleading. In contrast to a stand-alone text published in the 1980s, for example, a textbook published in 2010 often included workbooks, supporting technology (CDs or DVD) an instructor's manual, test banks, PowerPoint slides, and access to a website with review activities and other student resources. The social value of these enhancements was difficult to determine. As a practical matter, it was difficult to determine if the high prices of textbooks signaled a misallocation of resources or merely represented an unfortunate example of cost shifting that concerned parties found objectionable.

Regardless of the social value of textbooks, by the end of 2011 it was clear that the college textbook market, considered systemically, was producing outcomes with which a significant number of students and other stakeholders were unhappy. Numerous reports on the college textbook market had been produced by various groups, including the Community College League of California (Mize, 2004), the United States Government Accountability Office (2005), the State Public Interest Research Groups (Rube & Fairchild, 2005), the Advisory Committee on Student Financial Assistance (2007), the Association of American Publishers (2006), the Board of Governors for Higher Education, Department of Higher Education, State of Connecticut (2007), the Minnesota Office of Higher Education (Maplethorpe & Kissane, 2007), the California State Auditor, Bureau of State Audits (2007), among others. These reports focused primarily on the rising cost of textbooks and on different regulatory approaches to reducing these costs.

These reports were often followed by legislative efforts to address perceived deficiencies in the college textbook market. In 2007 alone, state legislatures in 27 states considered more than 85 bills that dealt with textbook pricing (Bell & Badolato, 2008). The 2008 Higher Education Opportunity Act (HEOA) included price disclosure requirements. Publishers were confronted by new laws in Connecticut, Washington, Minnesota, Oregon, Arizona, Oklahoma, and Colorado that dealt with textbook pricing and pricing disclosure—and they were facing the possibility of new legislation dealing with the cost of textbooks in almost every state ("Textbook," 2012).

Flat World Knowledge

The founders of Flat World, Eric Frank and Jeff Shelstad, were aware of the problems in the college textbook market. Together they had nearly 30 years of combined experience working for the three largest textbook publishers: Pearson, McGraw-Hill, and Cengage.[2] In 2007, after raising nearly $1.5 million in seed money, they quit their jobs and founded Flat World. Their objective was to create a different kind of textbook publisher.

Eric and Jeff intended their business model to be a disruptive force in the college textbook market. Flat World acquired content for its textbooks by contracting with authors in much the same way as other traditional textbook publishers. This content, however, instead of being embedded in physical textbooks, was placed on a server and made available, for free, to anyone with a web browser. When faculty adopted a Flat World textbook, it made money selling additional materials and services to students. For example, although access to the textbook was free, students could elect to buy a relatively cheap black-and-white copy of the text, or a more expensive color copy, or they could buy an electronic version of the text for an e-reader, etc.

In 2008, the founders registered the Flat World trademark, and alpha tests and a small-scale private beta test in a number of classrooms demonstrated the viability of their new business model (Haiken, 2008). They began working towards a public beta test launch in the spring of 2009. By August of 2009, Flat World textbooks had been adopted at 400 colleges and were being used by nearly 40,000 students (Oshiro, 2009).

By August of 2010, Flat World textbooks had been adopted at 800 institutions and the number of student users had tripled to nearly 150,000. In August of 2011, Flat World reported that its textbooks had been adopted at over 2000 colleges and universities and were being used by more than 300,000 students (Reid, 2011a).

By the end of 2010, Flat World had raised $11.5 million in investments from various venture capital firms, including Valhalla Partners, Greenhill SAVP, and High Peaks Venture Partners, and several angel investors (Ricketts, 2009). In January of 2011, Flat World raised an additional $15 million from a group led by Bertelsmann Digital Media Investments (BDMI). A few months later, Random House, a subsidiary of Bertelsmann, announced an additional investment.

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Innovations

Because some aspects of Flat World's business model were different than other traditional publishers, it maintained an extensive informational page on its website (http://www.flatworldknowledge.com/educators). This page was entitled "Freeing the Textbook" and included a list of the major systemic problems in the college textbook market (e.g. soaring prices, limited choices, no flexibility, rapid-fire new editions, trade-offs between price and quality) and how Flat World either addressed or resolved each of these problems. This page also contained links to numerous short informational and how-to videos.

Although other publishers had been somewhat responsive to demand for textbooks in electronic and other alternative formats, most still operated in a world in which the physical textbook anchored their business processes. In other words, other publishers produced a physical textbook first, and then adapted it to other formats. Flat World, in contrast, was set up to produce textbooks that were format (or platform) independent. Flat World could then deliver the textbook to the students in various ways, depending on students' access preferences and willingness to pay. Flat World designed their business processes so once a textbook had been produced, it would not incur additional expenses associated with adapting content to different formats or platforms.

Although Flat World employed a traditional development process in which the company worked with authors to produce high-quality peer-reviewed textbooks, once these textbook were completed, they were published under a Creative Commons Non-commercial Share-Alike license.[3] Unlike traditional copyright, this license made it possible for Flat World to allow faculty to customize their textbooks by altering the content, shifting it around, adding to it, adding notes, including other media, etc. In other words, once a faculty member adopted a textbook, they were free to customize it as they saw fit, and then release the customized content to their students. If students purchased a physical copy of the textbook, they received a copy of the customized textbook. Unique ISBNs were generated for all customized or derivative works. After Flat World had implemented the proper processes and technologies, customization of textbooks by individual faculty did not increase Flat World's costs.

By making textbooks available for free if accessed using a standard web browser, and then charging for alternative access methods, Flat World was effectively able to price discriminately. A no-frills black-and-white copy of the textbook, for example, cost approximately $35. A color copy was approximately twice that amount. For an additional payment, Flat World made textbooks available in various other formats, including PDF, ePub, .MOBI (Kindle), mp3, and abridged mp3. Because students were obligated, once a textbook had been adopted for a particular class, to use the Flat World website, Flat World was able to sell the textbook in different formats (and to sell additional textbook supplements) directly to the student—no middle-man was involved.

Flat World generated revenue from approximately 45% of students (the other 55% accessed free versions of textbooks using a standard browser). This percentage compared favorably to the percentage of students that purchased standard textbooks in an average college class (many students either purchased used textbooks, rented textbooks, or found other ways to avoid paying

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the cost of new textbooks). Flat World felt they had an advantage over traditional publishers over the long term because of the rapid drop-off of new textbook purchases once a textbook had been published as students migrated to after-market channels. In Flat World's case, the percentage of students that purchased additional materials and other services remained more or less constant over time (Weir, 2009).

Although Flat World's business model was inherently threatening to college bookstores because it involved transacting directly with students, it was exploring ways to use the traditional distribution channel. For example, in 2011 Flat World had approximately twenty print-on-demand pilot programs running with bookstores around the country. When a student ordered a textbook, the bookstore would print it and the student could pick it up. The bookstore compensated Flat World for the use of the digital file, but still cleared a reasonable profit on the printed textbook sold to the student.

A Revolution?

Eric was still sitting in his office waiting for Jeff, his partner and cofounder, to arrive. Although they had discussed these issues informally over the past several months, Eric wanted to talk to Jeff about starting a more formal discussion that included other top Flat World managers.

Eric had to concede that it was possible to see Flat World's business model in traditional terms. Flat World interacted with authors in the traditional way by contracting with them to develop textbook content and then paying them a royalty on subsequent sales. The company worked to get its textbooks adopted by faculty, just like other traditional textbook publishers. And just like other publishers, once its books were adopted, it did its best to get students to purchase its products. Although Flat World had intentionally set up their business model so that they would deal directly with students rather than go through traditional retail channels, it was now actively working to define a mutually beneficial relationship with college bookstores (a relationship that would involve a fairly standard retail markup on its textbooks).

On the other hand, Flat World was built differently. It was designed to leverage technology in interesting ways, and it was built to deliver textbook content at a lower overall cost. But did that make Flat World's business model revolutionary?

Eric had a yellow pad on his desk in front of him. He glanced down at a rough diagram he wanted to discuss with Jeff.

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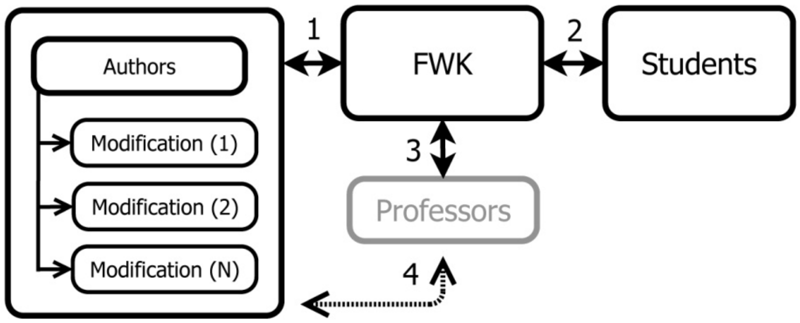

Figure 2. Flat World business model. 1: Relationship between Flat World and textbook authors; 2: Relationship between Flat World and students; 3: Relationship between Flat World and textbook adopters (generally, professors); 4: Attempts, by Flat World, to encourage textbook adopters to modify existing textbooks, thereby becoming authors, in a limited sense.

In Eric's opinion, one of the most revolutionary aspects of Flat World's business model was the possibility of making the process of writing textbooks cumulative (see #1 in Figure 2). By cumulative, Eric envisioned creating a technological platform that would allow professors to adapt and build on the work of other professors. For example, Flat World might contract with a professor to write a basic biology text, and then other professors might modify that text in different ways. Different modified versions of the text would then become part of Flat World's catalog along with the original textbook, and other professors would be able to adopt any of the available versions. Each of these versions would have its own ISBN number and would represent a distinct educational product.

Recently, Flat World had begun offering a 2% royalty to anyone who modified an existing textbook that was subsequently adopted by other faculty. In this case, the author (or authors) of the original textbook would continue to receive their full royalty.

However, creating an environment in which textbook authorship was cumulative in this sense represented an enormous challenge. As Eric and other members of the top management team had discovered, authors were often protective of their own work and could be surprisingly territorial. In addition, there had been some disagreement over the wisdom of a uniform 2% royalty regardless of the extent of the modification. Several members of the top management team had argued that a better approach would be to divide the royalties between the original author(s) and those who had modified the text based on the proportion of the text contributed by each.

As Eric looked at his diagram, he could see the possibility of a new (and revolutionary) relationship with authors, but had to admit that Flat World had yet to fully realize this potential (see #1 in Figure 2).

He felt that Flat World had begun to forge a unique relationship with students (see #2 in Figure 2). On one hand, Flat World offered free access to textbooks using a standard browser. There were not any strings attached to this access. On the other hand, Flat World was also in the business of selling additional educational products and services to these same students.

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Balancing these two aspects of their relationship with students represented an interesting challenge for Flat World.

The way in which Flat World interacted with faculty responsible for making textbook adoption decisions, although different in some respects, was traditional in the sense that the objective of this interaction was to persuade faculty to use its textbooks instead of similar textbooks from other publishers (see #3 in Figure 2). Finally, Flat World actively encouraged the faculty that adopted its textbooks to use its technology platform to modify and adapt its products and then make those modifications available to other faculty as part of Flat World's textbook catalog. In a sense, therefore, Flat World encouraged faculty that adopted its textbooks to become authors, at least in a limited sense (see #4 in Figure 2).

Eric also believed that Flat World's business model was revolutionary, in a sense, for what it did not contain. Its pricing structure (particularly the availability of free access for all students, regardless of ability to pay) eliminated pressure from the public, educational institutions, and government entities to control its prices. Likewise, it had pursued a disintermediation strategy, electing to deal directly with students, rather than delivering its products through traditional retail channels.

Because of its pricing strategies, and the way in which Flat World delivered its products, Eric suspected that after-market channels would never represent that same kind of challenge to his business that they did to traditional textbook publishers. Although Flat World was not that concerned about it, Eric could not help wondering if used copies of Flat World's textbooks were making their way into after-market channels. Because Flat World did not produce new editions of its textbook with the same frequency as other traditional publishers, the after-market sale of its textbooks had the potential to be particularly problematic.

Two Paths

If Flat World was going to revolutionize the college textbook market, Eric could see at least two paths forward. The first was to actively pursue strategies that merged the textbook purchasing decision with responsibility for payment. In many ways, Flat World's site license agreements were a way to accomplish this. A site license agreement allowed a particular college or institution access to all of Flat World's educational products and services for a fixed per-student fee. Flat World had recently set up a new division focused on marketing site licenses and had already signed a number of license agreements (Reid, 2010; Reid, 2011b). Virginia State University, for example, signed a licensing agreement that allowed all the students in eight core business school courses to access different digital formats of Flat World's textbooks for a flat student fee of $20 (Reid, 2010). By setting up a licensing arrangement with a college or university, Flat World came close to resolving one of the primary structural problems of the college textbook market—the separation of the purchase decision and responsibility for payment. In a sense, a licensing agreement meant that a college (or a university) that decided to use Flat World's textbooks and was also responsible for paying Flat World for the textbooks (even though it would, in all likelihood, attempt to pass that cost on to students).

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Second, Eric believed that Flat World was underutilizing its technology that allowed users to customize its textbooks. He felt that this technology could be used in a truly revolutionary way to crowd-source the writing of textbook content. In other words, utilized creatively, this technology could make it possible for a group of twenty or thirty academics to develop textbook content that might have substantial advantages over the traditional development process.

The question that Eric kept coming back to, however, was whether or not Flat World needed to be doing more, or moving more quickly, to address the systemic problems of the college textbook market? Should it focus more time, energy and resources on making the textbook writing process more cumulative for authors? Should it focus more on site licenses? Were there other more creative ways to address some of the systemic problems in the college textbook market that it was not pursuing (but should be)?

Eric was also concerned about the possibility of aggressive competitive response from the other major textbook publishers. If Flat World continued to make inroads into the college textbook market, sooner or later other traditional publishers would either attempt to acquire Flat World or mimic its business model. Was Flat World developing capabilities and/or acquiring resources that would be difficult to imitate? Was it developing a competitive advantage?

Eric looked at the clock. It almost time for Jeff to arrive. He felt that future of Flat World's business model could depend on how they answered these questions.

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Footnotes

[1] See the *About CourseSmart* page on the CourseSmart website for additional information: http://www.coursesmart.com/overview

[2] See the company website for additional information: http://www.flatworldknowledge.com/about

[3] More information on Creative Commons licenses can be found here: http://creativecommons.org/licenses/