INSIDE HIGHER ED

College Bookstores Oppose Cengage-McGraw Merger

Planned pricing changes by academic publisher Cengage have not gone down well with the National Association of College Stores.

By Lindsay McKenzie

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College bookstores have joined the growing list of opponents to the planned merger of two major academic publishers: Cengage and McGraw-Hill Education.

The National Association of College Stores, which represents more than 3,000 institutionally owned and operated stores, on Tuesday declared its opposition to the merger in an emailed letter to Cengage. The letter was first obtained by subscription news service *The Capitol Forum*, which reports on antitrust issues.

Ed Schlichenmayer, CEO of NACS, said his organization had previously taken a neutral stance on the merger. But proposed changes to Cengage's pricing structure for certain digital products prompted the association's leaders to reconsider their position.

In early November, Cengage sales reps began reaching out to bookstore managers to inform them of pending pricing changes that Schlichenmayer believes will limit the ability of bookstores to offer competitive prices to students.

Previously, all Cengage products were discounted by 20 percent off the list price so that bookstores could match the price on Cengage’s website and still make a profit. From mid-December, the publisher will no longer discount some of its products. This means bookstores will have to sell these products at a higher price than Cengage does in order to maintain their profit margins.
The pricing changes will not affect new print textbooks or the Cengage Unlimited subscription service but will apply to access cards and codes used to give students access to online homework products such as MindTap and WebAssign, as well as supplementary online materials that may be purchased with secondhand textbooks or rentals.

NACS’s qualms about the pricing changes are not just that they are a bad deal for bookstores, said Schlichenmayer. Many students buy books through their college bookstore because this is the easiest avenue to purchase course materials with financial aid, scholarships or bursar billing.

According to NACS research, 48 percent of students pay for their textbooks with a method other than credit cards. The new Cengage pricing could create situations in which students who are unable to pay by credit card are forced to pay more for course materials than their peers are, said Schlichenmayer.
“At the time the proposed merger of Cengage and McGraw-Hill Education was announced, Cengage issued public statements stating emphatically that the

merger would not lead to an abuse of business practices, instead it would be good for students and lead to a lower student cost for course materials," wrote Schlichenmayer in his letter to Cengage.
"At that time and based on these statements, NACS chose to remain publicly neutral in regard to the proposed merger. This position was communicated to the Department of Justice when they asked us for information and input in their review of the merger," wrote Schlichenmayer. "But we made clear as well that NACS may change its position should evidence surface to indicate the merger would be harmful. The decision to change pricing structure on [access cards and codes] is that evidence."

While NACS has no ability to block Cengage's pricing changes, which are due to take effect Dec. 14, Schlichenmayer has urged the publisher to rescind its decision.

The pricing changes are not limited to just NACS outlets. Jonathan Bibo, CEO of the Independent College Bookstore Association, said his organization is "very concerned about any program from any supplier or publisher that does not properly value the role of the store" and may "jeopardize or limit students' options to acquire materials using the widest possible array of tender types." He added that ICBA has contacted Cengage to discuss its strategy on behalf of its 235 members in the U.S. and Canada.

Representatives from Follett, Barnes and Noble Education, Redshelf, and VitalSource, all companies that distribute Cengage content and are presumed to be affected by pricing changes, did not respond to requests for comment, or declined to comment publicly at this time.

An emailed statement from a Cengage spokeswoman said the changes it is proposing are “common industry practice” and that in most cases “bookstores decide what prices they charge students.”

The decision to reduce the discounts that bookstores receive on a “small percentage of our products, namely standalone access codes for online homework programs,” will “help ensure our continued investment in affordability programs like Cengage Unlimited and inclusive access, and investment in our textbook and digital products that support student success,” the statement said.

The spokeswoman added that the Higher Education Opportunity Act of 2008 “gives students the flexibility to spend their financial aid on textbooks and course materials wherever they feel they get the best value.”

Kaitlyn Vitez, higher education campaign director for U.S. PIRG, a consumer advocacy group that opposes the Cengage-McGraw merger, agreed that students can buy course materials from sources other than the college bookstore using financial aid, but said the process can be time-consuming. “Most students don’t want to wait until week two or later to purchase their materials from a third party,” she said. “The smartest, simplest option is usually to use book vouchers or other bookstore programs that allow students to get books ahead of the start of class and pay later.”

“At this point in the Department of Justice review of the merger, many key stakeholders have made it clear they oppose the merger: students, libraries, institutions, consumer groups, antitrust lawyers and now bookstores,” said Vitez. “Now the Cengage pricing changes make clear that these moves are happening to consolidate publisher control and take advantage of a position of power in a broken market.”

If Cengage and McGraw Hill merge, they will control approximately 40 percent of the college textbook market, according to an analysis by the Open Markets Institute. The publishers say the merged company would account for no more than 30 percent of higher education course material adoptions. "One of the biggest concerns about the merger is about market power -- whether the merger would make it easier for the publisher to engage in activities that will harm consumers," said Nicole Allen, director of open education at SPARC, the Scholarly Publishing and Academic Resources Coalition, which has also publicly opposed the merger.

Cengage's planned pricing change looks like a "classic exercise of market power, manipulating where and when students can purchase course materials," said Allen. "If they display this kind of behavior now, before they merge and double in size, we should question what the market is going to look like afterwards."

Read more by Lindsay McKenzie

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