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The future of textbooks

Social Sector August 2014

Higher-education publishers face a growing threat from the rental-textbook market. Publishers can meet this challenge by shifting their emphasis from print to digital.

Each year, students have more choices for how to spend their limited book budgets. Used bookstores and online resale marketplaces offer textbooks at steep discounts that are attractive to students, but these players compete with textbook publishers that rely on new-book sales. Recently, a new type of player, the rental-textbook retailer, has emerged. Although this shift has benefited publishers so far, it could threaten their market share significantly in the next three years.

The average US college student spends $500 to $1,500 annually on course materials. This creates a nearly $10 billion industry, of which about $6 billion is addressable for textbook publishers.[1] Our research suggests that textbook rentals will start to cannibalize new-textbook sales by 2017, resulting in a reduction in new-book sales of 5 to 10 percent by 2020. That equates to as much as $500 million in lost sales. Textbook publishers face crucial choices about how to respond to these changing competitive and marketplace demands. Yet they can fight back—and dramatically improve how they support student learning.

The rental market rises

Educational publishers have long struggled to maximize sales of new textbooks to students. Historically, many students looking to save money simply shared textbooks among themselves. At the same time, college bookstores provided a cheap and convenient way to buy used textbooks, provided there was sufficient supply. And because bookstores typically realize higher margins on used textbooks than new ones, they had a clear incentive to push used books.

In the 1990s, e-commerce players such as Amazon.com and eBay transformed the used-book market by better connecting buyers and sellers. As a result, used-textbook sales rose from a historical average of about 30 percent of total textbook sales to about 36 percent by the late 1990s.

Then, in 2008, the textbook-rental market emerged as a mainstream option. New entrants such as BookRenter and Chegg were able to rent out new textbooks for less than the price of a used book. Budget-conscious students no longer had to worry about reselling their textbooks at the end of every semester. This value proposition resonated with students and the rental

[1] Our analysis considered data from Simba Information and a McKinsey survey of students.

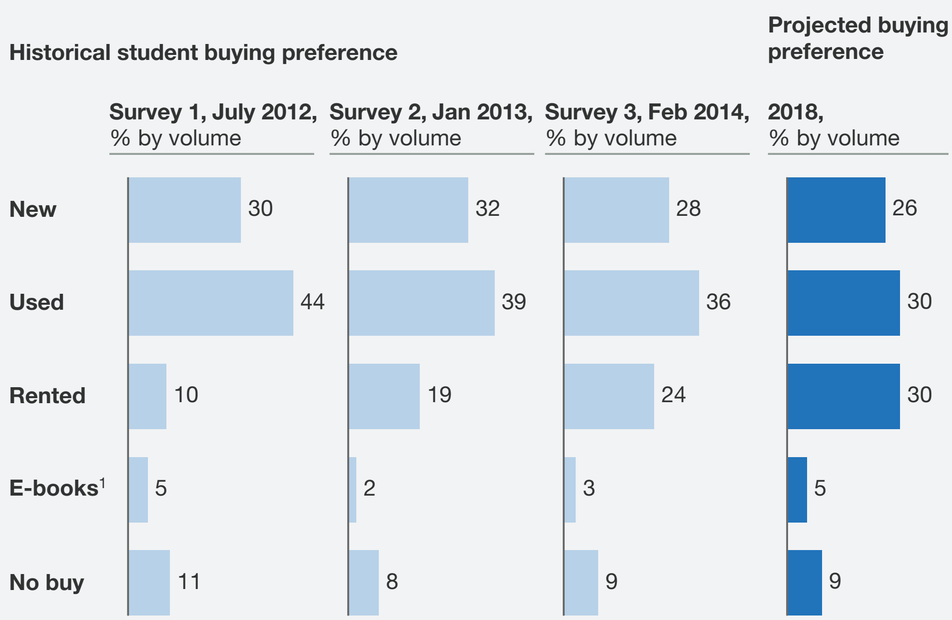
market grew rapidly, with existing players such as Amazon and Barnes & Noble College starting textbook-rental businesses of their own.

Since 2012, we have been gathering data on how US college students acquire course materials. Our annual survey of more than 1,000 students shows steady growth in the textbook-rental market. In our 2012 survey, 10 percent of all assigned textbooks were rented. Some 30 percent of textbooks were purchased new, and about 45 percent were bought used. (The remaining 15 percent includes basic e-book sales and books that were shared, borrowed, or pirated.) One year later, the proportion of rented textbooks had doubled to about 20 percent, compared with 30 percent bought new and 40 percent bought used. And in our 2014 survey, the rental share was 25 percent, compared with 30 percent for new and 35 percent for used (Exhibit 1).

We expect rentals to peak at about 30 percent of assigned textbooks, taking share primarily from used books. Our surveys suggest that student awareness of the rental market is already

Exhibit 1

Student preference has shifted toward rented textbooks.



[1]E-books refer to simple digital versions of textbooks but do not include the more sophisticated, dynamic digital-learning resources referenced in this article.

Source: Expert interviews; McKinsey surveys of university students (July 2012 n = 1,494; January 2013, n = 1,000; February 2014, n = 1,145); McKinsey analysis

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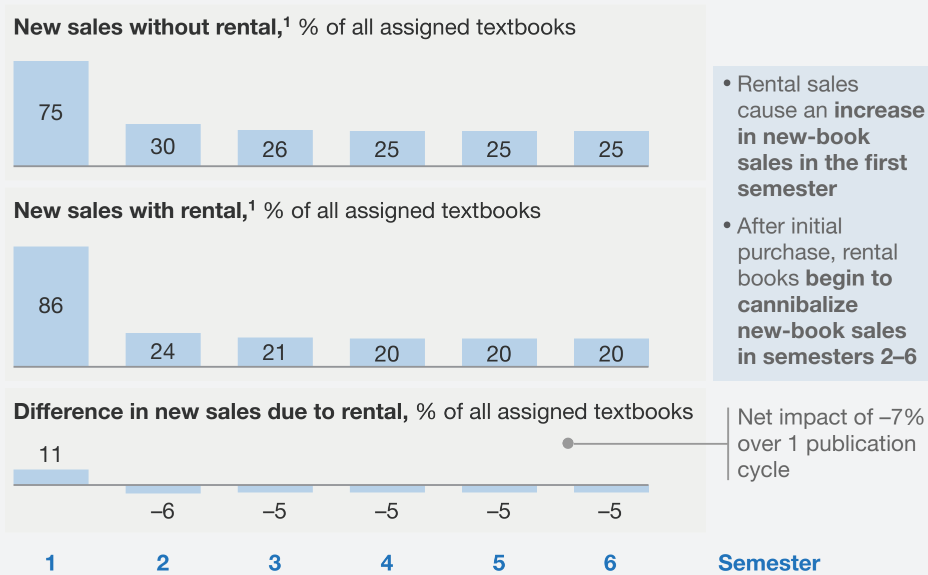
Exhibit 2

The ‘pull forward’ effect is offset by cannibalization of new-book sales in later semesters.

New-textbook sales across the life cycle of a publication cohort



[1]Assumes portion of students who do not acquire books shifts from 20% to 8% due to introduction of the rental market (which reaches 30% penetration).

McKinsey&Company | Source: Expert interviews; McKinsey analysis

high and that future rental intent has slowed drastically since 2012. In addition, our research suggests that rental companies are close to exhausting the supply of textbooks that have attractive rental economics. A quarter of all textbooks sold are custom publications, which typically get updated annually, or contain consumable elements such as workbooks. Neither segment is well suited to a rental model. And textbooks for advanced elective courses have much smaller target audiences that may not be attractive for rental companies.

Yet the maturation of the rental market doesn’t mean publishers can relax; there are two issues. First, given a low-cost option to acquire textbooks with no resale risk, students can be expected to still gravitate toward rentals. Once used copies enter the rental market, publishers lose out on new sales of their books.

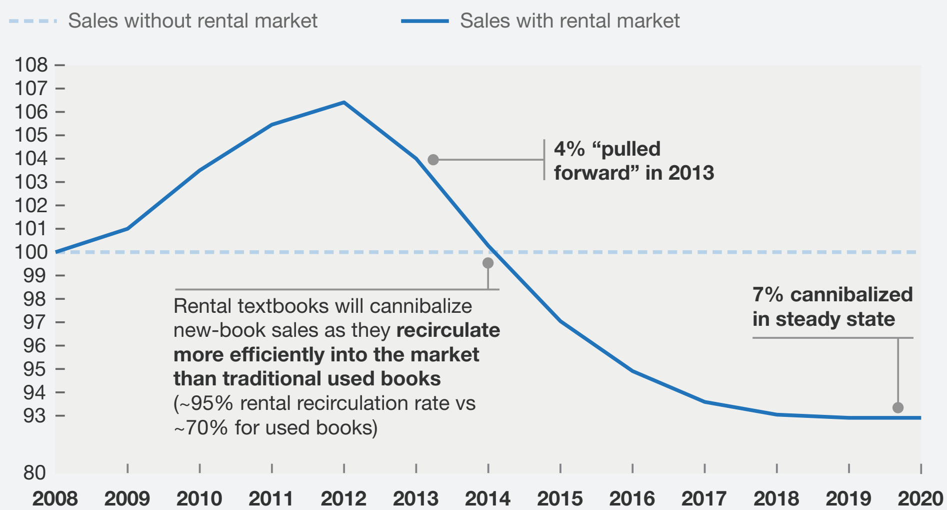
Second, the impact of the rental market on textbook publishers remains negative. While we have found that publishers enjoy a “pull forward” effect from rental companies that must purchase new books at the beginning of a publication cycle to build up their stock, this is offset by a sales decline of about 25 to 30 percent in later semesters as new-textbook sales are replaced by rentals. The result is that, over the entire publication cycle, the textbook-rental market causes a net decrease of about 5 to 10 percent in total unit sales (Exhibit 2).

In periods when overall rental penetration is growing, the first-semester spike in new-book purchases has typically outweighed the impact of cannibalization from prior semesters. Yet as rental growth slows, we expect cannibalization to outweigh the first-semester spike, assuming student preferences for new, used, rental, and e-books remain constant after 2018. Our analysis shows that the pull-forward effect that peaked in 2012 will turn negative in 2014. We expect sales of new books to fall by up to 10 percent by 2017 (Exhibit 3).

Exhibit 3

New-book sales could fall by 10 percent by 2017.

Total rental impact on new sales, % of new sales



Year-on-year impact, %

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0	1	3	1	1	–2	–4	–3	–2	–1	–1	0	0

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Custom and digital defenses

The good news is that textbook publishers have options that may protect them from this threat while benefiting students and educators.

Some publishers have embraced custom publishing. Custom-textbook sales are less affected by the used and rental markets because course materials are "localized" for specific professors and courses. And because custom-publishing materials are typically updated more frequently than standard textbooks, the publication cycle is shorter. Custom publishing currently accounts for up to 40 percent of units sold by several major publishers. However, the custom-publishing market is already quite mature, which means that growth opportunities are limited.

The larger opportunity for publishers lies in the creation of dynamic digital-learning resources. Many publishers already are creating adaptive exercises, digital text with interactive graphics, audio, and video, and desktop simulations of everything from chemistry experiments to taking a patient's pulse.

Early evidence suggests these digital tools can improve educational outcomes. Dropout rates fell to 14 percent from 31 percent after adaptive digital tutorials were introduced in a first-year engineering-mechanics course at Australia's University of New South Wales. Similar tutorials have helped boost pass rates in other entry-level courses by an average of 18 percent at Arizona State University, the University of Alabama, and the University of Nevada, Las Vegas, according to data that we compiled from university websites, Knewton and Smart Sparrow.

Time is not on the side of textbook publishers. They face a near-term competitive threat from the rental market, even as they serve a customer base that is increasingly dominated by digital natives. Both factors point to a digital future for the textbook-publishing industry—and better outcomes for students. □

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