COMPETITION INCREASES PRICES: THE CASE OF INTERMEDIATE ACCOUNTING TEXTBOOKS

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ABSTRACT

While we learn in our economics classes that competition drives down prices, we experience a different reality when we look at the prices of accounting textbooks. The textbook market, including the market for accounting textbooks, is certainly not described by a supply/demand curve for a situation with perfect competition. Because students are the consumers of the texts but the faculty are choosing the required textbook, the demand function is not driven by the consumers. Because faculty members can ask for more bells and whistles to accompany their texts without directly paying for these improvements, publishers compete by adding more bells and whistles. Because of this situation, the competition has caused an increase in the price of textbooks. This paper is a preliminary exploration into the factors that lead to this reality.

Keywords: Accounting, Ethics, Pedagogy, Course Materials

INTRODUCTION

Prices for textbooks for college and university classes have been steadily rising for many years. In most cases they are rising at rates well above the inflation rate, competing with the rise in tuition costs (GAO, 2005).

> Students and parents are experiencing sticker shock when it comes to college textbooks. After assessing family resources, applying for financial aid, and often taking out additional public and private loans, students enroll in college, select courses, and go about the process of purchasing required textbooks and other course materials. Students and parents often pay the textbook bill out of pocket. What they see is often out of line with the price of books in other venues. Since the textbook bill comes last, it can strain or exceed remaining financial resources. In such cases, textbook expenses can become the final barrier to college (ACSFA, 2007).

A recent article in *USA TODAY* included an anecdote of a senior majoring in accounting who could not afford the cost of accounting textbooks. He got by in some of his classes by participating in study groups and attending the professors' lectures (Yu, 2012). While many of us have heard stories of students buying a textbook required for a class only to find out that the professor did not use it much or expect the students to do so either, most textbooks required for accounting classes are an integral part of the class, and a student would be at a definite disadvantage in not having access to the textbook material.

Accounting textbooks in general, and intermediate accounting textbooks specifically, are no exception to the increase in prices. Prices continue to rise and students look for alternative ways to obtain the books less expensively.

Interestingly, the rise in textbook prices has come during a period of time when textbook publishers are experiencing extreme competition. Over the last 20 years, many publishers have been involved in mergers and acquisitions in an attempt to survive the competitive atmosphere (GAO, 2005).

While we learn in our economics classes that competition drives down prices, we experience a different reality when we look at the prices of accounting textbooks. Even though intermediate accounting textbooks are used for two semesters, sometimes three, the purchase price is surprisingly high. The remainder of this paper is a preliminary exploration into the factors that lead to this reality.

ECONOMIC MODELS AND THE TEXTBOOK MARKET

In a situation with perfect competition involving many suppliers and many consumers, we know the supply curve is upward sloping and the demand curve is downward sloping. As the price increases, the quantity supplied also increases. As the price decreases, the quantity demanded increases. The intersection of the supply and demand curves will determine the quantity and the price for specific products. Theoretically competition will drive out inefficient producers, and rationality will discourage consumers from paying more than the equilibrium price.

Many other economic models exist to explain behavior in monopoly situations, duopoly situations, or other situations in which perfect competition does not exist. Certainly the textbook sector of our economy is far from an example of perfect competition. Although the supply side has significant competition, the demand side is usually not driven by the end consumer. While students are the end consumers, faculty or faculty committees are the ones who choose the required textbooks for a given class. While the faculty do not buy the textbooks, they are the ones who choose what books will be used.

Students are then left to acquire the materials required for the class as determined by the faculty. Increasing options exist for students to buy textbooks at a university bookstore, at a competing bookstore, or online. Students may even be able to purchase cheaper international editions of some textbooks and have them shipped back to the U.S. Some options now exist for students to rent a book for the semester or to buy electronic access to the book for a specified period of time. In some cases, students make an attempt to succeed in the class without acquiring the required or suggested materials.

PUBLISHING COMPANY MARKETING

Because faculty members or faculty committees make textbook decisions, textbook publishers have no need to directly market their product to the students. The publishers may offer multiple methods for a student to obtain the textbook material for use in class—hardback print copies, softcover print copies, binder ready print copies with no cover, or online electronic access—but these methods are only presented to students once the textbook decision has already been made by one or more faculty members. The students do not participate in the textbook selection process; they only participate in the decision of what format of the book to acquire (if any).

Instead of direct marketing to students, textbook publishers focus their marketing efforts at the faculty members who will be selecting the required text materials for the course. These marketing efforts include targeted mailings, sample copies of the textbooks, and frequent visits to college and university campuses to meet face to face with the faculty members (GAO, 2005). Publisher representatives make great efforts to sell faculty members on their particular textbooks, especially for classes that will have a very large enrollment. By convincing one faculty member about the advantages of a certain book, a publisher representative may get credit for sales of a hundred texts per year at that school. For even larger classes with many sections, the publisher representative can guarantee the sale of several hundred books per year by convincing a faculty committee of the preferences for a given textbook.

FACULTY MEMBER PREFERENCES

Of course, publisher representatives want to convince faculty members that the textbook they are offering has the most up-do-date content. They also claim that their authors have found the best ways to explain the material to the students and that their choice of texts is very readable for the students. Over time, supplements to the textbook available either to faculty members or students also became part of the competition. Originally these supplements were additional hard copy items that could be given to faculty members (test banks, solution manuals, teaching materials, etc.) or sold to students (study guides). As technology allowed, many of these items were moved to a CD format to be provided to the faculty members. More recently, many of these resources have been put online at a publisher website with links to the specific textbook and online supplements (practice quizzes, supplemental reading material, chapter objective summaries, practice problems, tutorials, etc.). In fact major publishers have also developed online homework systems so students can do their homework and submit it online. These systems now provide grading capabilities so that the grades can be automatically recorded, saving the faculty member time and effort in collecting, grading, recording, and returning homework.

Over the last 50 years, partly due to advances in printing technology and partly due to competition within the textbook industry, accounting textbooks have gone from one color and mostly text with a few charts to multi-colored formats with many graphs, pictures, real-life examples, and varied font types, styles, and sizes.

Although the faculty members making textbook decisions can easily see the possible benefits of additional resource materials and the improved print presentation of the textbooks, they will not directly bear the cost of these resources. Thus, faculty preferences may drive the publishers to include "more" and "better" resources without much direct worry about the cost. As publishers compete to add more of these bells and whistles, the cost of the textbooks keeps increasing. The competition to make each textbook and its accompanying package of supplemental materials better than what is provided by another publisher is increasing prices to students. So competition, rather than reducing input costs and output prices, is actually dramatically increasing input costs. Output prices must therefore increase as well.

PUBLISHER AND STUDENT COMPETITION

As output prices increase, students look for less expensive ways to acquire the use of the textbook material. They consider buying used textbooks, purchasing online, renting textbooks, buying electronic access, and buying international editions that are sold abroad for much less. Of course, several of these options offer no resale value for the student after the textbook has been used. But even the purchase of a new textbook does not guarantee much, if any, resale value, especially if the book is about to be replaced by a new edition. In fact, even the used book market is often smaller than it used to be, partially because publishers are decreasing the length of time between editions.

The publishers get no additional value for the sale of used textbooks. In fact, the used book market decreases the market for new books. Because publishers are incurring such great costs for all of the material and supplements for a textbook, they cannot be competitive unless they can increase the sale of new books by decreasing the relevance of the used book market. Intermediate accounting textbooks used to be on a three-year cycle, but some of them have gone to two-year cycles or even less. While this benefits the publishers, it is costly for students who have to purchase more new textbooks versus used textbooks.

Publishers are also moving toward electronic delivery of textbooks as well as the supplementary materials. If publishers could immediately move to only electronic delivery, they could offer cheaper alternatives since they would not have to go through any of the processes related to printing and physical distribution. Since the textbook material would be less expensive for students electronically, students would be less concerned about having a product that cannot be resold. The publishers would no longer have to worry about the squeeze they feel from the used textbook market. However, the demand for print versions persists, and it may take a long time before everyone is willing to adopt an electronic-only format for textbooks (Yu, 2012).

INTERMEDIATE ACCOUNTING TEXTBOOK CONTENT

Intermediate financial accounting classes in the U.S. focus on financial accounting and reporting to meet Generally Accepted Principles (GAAP). Financial accounting standards are supposed to be designed to meet the financial reporting objectives stated by the Financial Accounting Standards Board (FASB). The primary objective of financial reporting as defined by the Financial Accounting Standards Board (FASB) is

> to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or

> holding equity and debt instruments and providing or settling loans and other forms of credit. (FASB, 2010, par. OB2)

Because of increasingly complicated business structures and relationships and increasingly complex financial transactions, the standard setting process involves both art and science, and resulting standards are subject to change over time in an attempt to meet the financial reporting objective while balancing relevance and reliability of the information and while considering the cost-benefit tradeoff of providing the required information. Thus, there is no "ultimate truth" in how financial information should be reported that will finally be discovered. This means that accounting standards will continue to change over time as the economy, business structures, financial transactions, and information technologies change.

It is true that the number of financial accounting standards continues to increase. Thus, intermediate accounting textbooks have increased in size over the past 30 years. However, some of the new standards simply change the requirements for financial reporting from an old accounting principle to a new accounting principle. In these cases, the content of intermediate accounting textbooks may change without a need to increase the volume of the content.

While different intermediate accounting textbooks may claim to have better explanations, more helpful pedagogical tools, or improved online materials, the content coverage in most intermediate accounting textbooks is very similar. The content itself is relatively costless for the authors to obtain. If a new FASB standard is adopted, all authors have fairly costless access to this information. Of course, author time is spent trying to write understandably and to prepare exercises and problems that will help the learning process. Publisher time is also spent to make the presentation of the material more desirable, perhaps even in an attempt to appeal to a broader range of learning styles.

As a limited number of topics can be covered in a two-semester (or three-semester) intermediate accounting sequence, authors and publishers must always choose which topics to cover in their texts. Over time, some topics become less important to a large number of faculty members. However, some faculty members may have a special affinity for these topics and desire them to remain in the textbook. Although this may mean larger textbooks with higher prices, the publishers may leave many of these topics in to satisfy a larger share of the market. So while new topics are added from time to time, old topical coverage often remains even if not used by many faculty members.

The same is often true of adding an increasing number of learning activities, real-life examples, or sidebar comments in the textbook or adding additional faculty supplements such as PowerPoint slides to the online resources. Some faculty find the new materials and pedagogical enhancements appealing, but the faculty who liked the previous materials also win, so enhancements are added without the reduction of other materials. All of these additions to the book increase the volume of the actual textbook and the volume of online supplements; even though any given faculty member may be covering about the same amount of material as previously. But the faculty member is choosing what to cover from a greater amount of possible material. The increasing amount of print and online material is expensive and drives up the price of the textbooks.

DISCUSSION

While it is unlikely that any accounting faculty member would find any of this paper to be surprising or controversial, it is quite possible that because faculty members can request more of the textbook publishers without directly bearing the cost, they do not think very deeply about what they can do to alleviate the problem for students who struggle to afford textbook access. It is no wonder that, since student consumers of textbooks do not drive the demand side in this industry, they continue to look for less expensive alternatives to access what is needed. Because students are trying to reduce their costs, this puts pressure on the publishers because fewer new copies of the text are sold. If publishers cannot recoup the increased costs invested in the textbook package, they continue to look for alternative methods of getting each student to purchase access (without the possibility of resale) and they reduce the publication cycles for their books so the used book market is significantly reduced. All of these factors combined lead to an increased price for intermediate accounting textbooks because of fierce competition in the publishing industry, not competition from an economic model of perfect competition, but a competition of continuous upgrades to the textbooks and online supplements even though the content does not necessarily change significantly.

CONCLUSION

The textbook market, including the market for accounting textbooks, is certainly not described by a supply/demand curve for a situation with perfect competition. Because students are the consumers of the texts but the faculty are choosing the required textbook, the demand function is not driven by the consumers. Because faculty members can ask for more bells and whistles to accompany their texts without directly paying for these improvements, publishers compete by adding more bells and whistles. Because of this situation, the competition has caused an increase in the price of textbooks. It is likely that faculty members need to pay greater attention to the increased price of textbooks and then work with publishers and students to alleviate the problem. Otherwise, we end up with more and more students who do not acquire textbook access or who will compromise ethical principles to acquire access in questionable ways.

While the problem of competition increasing prices for textbooks may be fairly generalizable to most college and university textbooks, there may be differences in exactly how this competition affects discipline-specific textbooks such as those used in the accounting curriculum. Legitimate content changes will come at different rates for different disciplines and even for different sub disciplines such as financial accounting, the focus of intermediate accounting sequences.

Further research could focus more specifically on the content changes for intermediate accounting textbooks and examine whether the bells and whistles that have been added actually benefit students, especially those with different learning styles.

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