In accordance with Maryland State Senate Bill 183 (the College Textbook Competition and Affordability Act of 2009), the Maryland Higher Education Commission in consultation with the University System of Maryland, St. Mary’s College of Maryland, Morgan State University, the Maryland Association of Community Colleges, and the Maryland Independent College and University Association conducted a feasibility study regarding:

1) the establishment of one or more textbook rental programs in Maryland that would allow students to lease textbooks on a per book, per credit hour or per course basis, including an analysis of start-up costs and funding options such as private sector donations and grants;
2) the establishment of a statewide digital marketplace for college textbooks and supplemental material; and the accessibility of the digital marketplace and any and all electronic textbooks and supplemental material to blind and print-disabled students and faculty members.

In response to this charge, MHEC assembled two intersegmental subcommittees (one for each study). A summary of the findings for each study is provided below. The full reports are attached.

I. Summary of findings from the Maryland Digital Marketplace Feasibility Study

Due to the lack of actual implemented digital marketplace (DMP) infrastructures and substantive evidence of successful DMP programs, best practices or outcomes, a full feasibility study was not practical. Instead, this study may be considered a literature review covering the scope, key factors, definitions, models and best practices of the initiatives identified nationwide. The report also includes information currently available regarding the components of the DMP, descriptions of two innovative state initiatives for implementing an infrastructure and recommendations for further study. Key components of DMP initiatives include electronic textbooks, no-cost online textbooks, open education resources, print on demand, electronic readers and online collections of educational content.

The centerpiece of a digital marketplace must be an enabling infrastructure of technology and support services with which institutions, students, faculty, bookstores, publishers and other content providers can interact efficiently. This infrastructure would consist of: 1) a transaction clearinghouse, which would process each multi-part transaction; collect funds from the purchaser, distribute royalties, fees for resources, and/or commissions; secure rights through a digital rights management capability; and track content; and 2) marketplace web applications, which would enable transactions with content providers and institutional portals.

As the state explores the possibility of establishing a statewide DMP, the following should be taken into consideration:

- The college textbook marketplace is evolving and changing due to emerging technology and competition.
- As the recent Public Interest Resource Group (PIRG) study notes, digital does not necessarily mean reduced cost for students, particularly when printing and other total cost of ownership factors are added up (Nelson, 2008).
- Digital rights management capabilities and transactional processes needed for both fee-based and no-cost content must be considered as part of a state-wide structure.
- Short- and long-term efforts to improve textbook affordability must be led by college and university faculty, bookstores, publishers and other stakeholders to interact efficiently.
- Emerging models in the textbook industry include direct to consumer, institutional and the traditional bookstore. Information and insight may be gleaned from programs and companies
working in the area to include: California State University’s Digital Marketplace, the OhioLINK eText Project, CourseSmart, Amazon.com, VitalSource, CafeScribe and the National Association of College Stores (NACS).

- The Department of Justice and the Department of Education issued a joint warning to colleges and universities regarding the use of e-readers and the accessibility of the blind (Sorenson, 2010).
- While e-texts have gained popularity, they have become more inaccessible for the blind and print-disabled because of steps to protect the intellectual property of vendors.

**Recommendations:**
The study team proposes the following recommendations for statewide research and policy initiatives:
- Exploring the status of accessibility for blind and print-disabled students.
- Conducting a needs assessment for state-wide enhancements of access.
- A need for an industry initiative or incentive to create a universal access model for e-texts or cross-platform model for e-readers.

**II. Summary of findings from the Maryland Textbook Rental Program Feasibility Report**
Information was gathered through a review of other state’s higher education institutions’ textbook rental programs. The information obtained was subjectively evaluated to: 1) identify the major types of textbook rental programs, 2) develop a set of textbook rental program “lessons learned,” and 3) determine the key factors to consider in implementing a successful Maryland textbook rental program.

The results of this study indicate that under the “right conditions” higher education institutions can implement academic and economically viable textbook rental programs of significant scope leading to student textbook savings of approximately 55%, when compared to a new textbook. Key issues to be addressed to secure the proper conditions include: an appropriate Maryland rental organization structure, assuring institutional autonomy and academic freedom in textbook rental programs, assuring the rental programs’ economic feasibility and selecting the most favorable textbook rental business model.

**Recommendations**
Based on the findings, it is recommended that MHEC (through a Textbook Rental Subcommittee) proceed with continued study of a statewide textbook rental program and establish a MHEC Textbook Rental Coordinating Committee, comprised of representatives from all Maryland higher education institutions, to centrally coordinate, facilitate and support the Maryland institutions electing to implement textbook rental programs.
MARYLAND DIGITAL MARKETPLACE FEASIBILITY STUDY

Introduction and Executive Summary

The information in this document relates to the intent and objectives of the Maryland State Senate Bill 183, the College Textbook Competition and Affordability Act of 2009's charge to Maryland Higher Education Commission to conduct a digital marketplace (DMP) feasibility study. Due to the lack of actual implemented digital marketplace infrastructures to study this document may be considered a literature review which covers the scope, key factors, definitions, models, and best practices of digital marketplace initiatives nationwide. The review includes information currently available about the components of the digital marketplace, descriptions of two innovative state initiatives for implementing an infrastructure, and recommendations for further study.

SB 183 - Background and Objective

Initially, the purpose of this review was to study the scope and feasibility of the implementation of a digital marketplace in the State of Maryland. According to SB 183 (College Textbook Competition and Affordability Act, SB 183, 2, 3 (2009)), the Maryland Higher Education Commission, in consultation with the University System of Maryland, St. Mary’s College of Maryland, Morgan State University, the Maryland Association of Community Colleges, and the Maryland Independent College and University Association, are charged with conducting a feasibility study on or before December 1, 2011 regarding the establishment of a statewide digital marketplace for college textbooks and supplemental material. The study is required to include:

(i) analysis of the infrastructure, technology, and support services necessary to allow institutions, students, faculty, bookstores, publishers, and other stakeholders to interact efficiently;

(ii) consideration of digital rights management capabilities and transactional processes needed for both fee-based and no-cost content;

(iii) accessibility of the digital marketplace and any and all electronic textbooks and supplemental material to blind and print-disabled students and faculty members. (Brochin, Conway, Dyson, Forehand, Frosh, Harrington, Klausmeier, Kramer, Lenett, Madaleno, Peters, Pinsky, Raskin, Rosapepe, 2009)

At this time however, a full feasibility study is not practical since there is not enough substantive evidence of successful DMP programs, best practices or outcomes to develop such a study. This is based on the fact that, to date, Ohio is the only state that has actually implemented a DMP plan and California is currently piloting a DMP program.
Defining the Digital Marketplace (DMP)

The DMP is a comprehensive suite of innovative technology services and business solutions designed to help educational institutions provide more choices, greater affordability, and increased accessibility to educational materials. Three goals of DMP are:

- **Choice** - Enabling faculty to search and select the most appropriate content AND enabling students to select the delivery format.
- **Affordability** - To provide students access to quality content at significantly lower costs.
- **Accessibility** - Complete access, in a timely manner, to all learning materials regardless of physical or learning disabilities.

We believe in implementing these strategies equitably. Each campus needs to have a centralized distribution point for all types of content from the widest choice of content providers and that improving and/or expanding partnerships between existing institutions and businesses is the best place to start planning these services.

Key Components of DMP

Digital Marketplace (DMP) initiatives reviewed by the MHEC subcommittee regarding short and long term efforts to improve textbook affordability through the use of a DMP infrastructure, components, and strategies include the following:

- **Electronic textbooks**
  - Definition: An educational or instructional book in digital form. An electronic version of a printed book which can be read on a personal computer or hand-held device designed specifically for this. An e-book is the digital media equivalent to conventional printed textbooks, sometimes restricted with a digital rights management system.
  - Key factors: As more students use their laptops and smartphones on a daily basis, e-textbooks are increasingly taking the place of printed books.

- **No-cost online textbooks**
  - Definition: An open textbook is an openly-licensed textbook offered online by its author(s). The open license sets open textbooks apart from traditional textbooks by allowing users to read online, download, or print the book at no additional cost.
• Key factors:
  Open textbooks are increasingly seen as a potential solution to some of the challenges with the traditional textbook publishing model.

➢ Open Education Resources (OER)

  • Definition: The term "open educational resources" was first adopted at United Nations Educational, Scientific and Cultural Organization’s 2002 Forum on the Impact of Open Courseware for Higher Education in Developing Countries funded by the William and Flora Hewlett Foundation. Open educational resources are educational materials and resources offered freely and openly for anyone to use and under some licenses to re-mix, improve and redistribute. Open educational resources include:

  • Key factors:
    o **Learning content**: Full courses, course materials, content modules, learning objects, collections, and journals;

    o **Tools**: Software to support the creation, delivery, use and improvement of open learning content including searching and organization of content, content and learning management systems, content development tools, and on-line learning communities;

    o **Implementation resources**: Intellectual property licenses to promote open publishing of materials, design-principles, and localization of content.

➢ Print on Demand

  • Definition: A printing and business process in which online materials are printed after they are adopted.

  • Key factors:

    o Consumers can access the materials online and choose to print them if desired. Print on demand information is available by subscription or fee.

    o Several print on demand business models exist. A company called Flatworld, has one such model where students can access textbooks for free online and can choose to print them for a fee.

➢ Electronic readers (e-readers)

  • Definition: A dedicated hardware device known as e-book devices. Personal computers and some cell phones can also be used to read e-books.
• Key factors:
The main advantages of e-readers are their portability, readability and long battery life. There are efforts to develop a universal standard for digital content that will be readable on many platforms, including computers, smartphones, and tablets.

➤ Online Collections of Educational Content

• Definition: Collections are stored in digital formats (as opposed to print, microform, or other media) and accessible by computers. The digital content may be stored locally, or accessed remotely via computer networks. A digital library is a type of information retrieval system. The DELOS Digital Library Reference Mode defines a digital library as: An organization, which might be virtual, that comprehensively collects, manages, and preserves for the long term rich digital content, and offers to its user communities specialized functionality on that content, of measurable quality, and according to codified policies.

• Key factors:
A distinction is often made between content that was created in a digital format, known as born-digital and information that has been converted from a physical medium, e.g., paper, by digitizing. The term hybrid library is sometimes used for libraries that have both physical collections and digital collections. For example, American Memory is a digital library within the Library of Congress. Some important digital libraries also serve as long term archives, for example, the ePrintarXiv, and the Internet Archive.

DMP Infrastructure

The centerpiece of a digital marketplace must be an enabling infrastructure of technology and support services with which institutions, students, faculty, bookstores, publishers, and other content providers can interact efficiently. This infrastructure would consist of a transaction and rights clearinghouse, numerous marketplace Web applications, and hosted infrastructure resources.

➤ The Transaction and Rights Clearinghouse would process each multi-part transaction; collect funds from the purchaser; distribute royalties, fees for resources, and/or commissions; secure rights through a digital rights management capability; and track content.

➤ Marketplace Web applications would enable transactions with content providers and institutional portals. The hosted infrastructure would ensure that all systems interface, support a registry of millions of learning items, provide marketplace services to thousands of campuses and millions of users, and process hundreds of millions of transactions for both fee-based and no-cost content.
> **Infrastructure Resources--Vendors**

**CourseSmart** is currently a key provider of college textbooks in eTextbook format on a common online platform. The company is a new venture founded and supported by the following higher education textbook publishers: Pearson Education; Cengage Learning; McGraw Hill Education; John Wiley & Sons; F. A. Davis Company; and the Bedford, Freeman, Worth Publishing Group. The company currently sells more than a third of all college textbooks in online format. Textbooks purchased through CourseSmart are purchased on a subscription basis. The book is accessible for a predetermined amount of time, and so the buyer does not actually own the content. Services of such vendors could be key to the success of the DMP infrastructure. However, as discussed below,

CourseSmart, the largest online marketplace for e-textbooks, produces, by admission, what can only be characterized as dismally inaccessible e-texts. CourseSmart (Month, Year, Day) Title of Post, Retrieved from http://en.wikipedia.org/wiki/CourseSmart

> **Potential Obstacles** to development of a DMP exist in the areas of agreement on a single system, technological standards, copyright policy to address digital content, and start-up resources, they are clearly surmountable according to the report from the Advisory Committee on Student Financial Assistance, 2007.

**Consideration of Digital Rights Management**

Digital rights management capabilities and transactional processes needed for both fee–based and no–cost content must be considered as part of a state-wide DRM structure. Digital rights management (DRM) is a generic term for access control technologies that can be used by hardware manufacturers, publishers, copyright holders, higher education institutions and individuals to impose limitations on the usage of digital content and devices. The term is used to describe any technology that inhibits uses of digital content not desired or intended by the content provider. The term does not generally refer to other forms of copy protection which can be circumvented without modifying the file or device, such as serial numbers or key files. It can also refer to restrictions associated with specific instances of digital works or devices. Digital rights management is used by companies such as Sony, Amazon, Apple Inc, Microsoft, AOL and the BBC.

The use of digital rights management is controversial. Proponents argue it is needed by copyright holders to prevent unauthorized duplication of their work, either to maintain artistic integrity or to ensure continued revenue streams. Some opponents, such as the Free Software Foundation (through its Defective By Designs campaign), maintain that the use of the word "rights" is misleading and suggests that people instead use the term **digital restrictions management (DRM)**. Their position is essentially that copyright holders are restricting the use of material in ways that are beyond the scope of existing copyright laws, and should not be covered by future laws. The Electronic Frontier Foundation, and other opponents, also consider DRM systems to be anti-competitive practices.
Accessibility of the Digital Marketplace

Accessibility of the digital marketplace and any and all electronic textbooks and supplemental material to blind and print-disabled students and faculty members is a concern of the SB 183.

➤ Electronic textbooks and supplemental material to blind and print-disabled students and faculty members.

Publishers and instructional material producers shall provide a standard electronic file format which may be converted into fully accessible textbooks and instructional materials for blind and print-disabled students and faculty members with qualifying print-disabilities.

Considerations of the DMP and the Blind/Print-Disabled

The Higher Education and Disability (AHEAD) professional organization is a resource for campus Americans with Disability Act (ADA) disability professionals, faculty and bookstore staff and provides e-textbook solutions for print-disable students and faculty (AHEAD, 2010).

Many textbooks are now being made available as e-textbooks, but the jury is still out regarding the accessibility to people with print disabilities. In this respect, "electronic does not necessarily equate to accessible" (Lori Kaufman, Montgomery College, personal communication, 09/20/10).

Digital textbooks were originally created as a lower cost alternative to Braille texts. Digital texts became less accessible as for-profits readers came out on the market, like the Kindle and Sony, especially when digital rights management was introduced to protect content (Booth, 2010).

➤ Providing accessible texts requires making them easy to navigate to and through in a usable design. Device- and interface-specific e-books are often "locked down" to other readers, meaning that by default they block attempts to be read with screen-reading software. Additionally, many e-book and e-journal platforms, such as Adobe Digital Editions, have significant accessibility barriers making it quite difficult for screen-reading software, such as JAWS, to be used. (Booth, 2010)

➤ CourseSmart, the largest online marketplace for e-textbooks, produces by admission, what can only be characterized as dismally inaccessible e-texts (Booth, 2010).

➤ The Department of Justice and the Department of Education issued a joint warning to colleges and universities regarding the use of e-readers and the accessibility of the blind (Sorenson, 2010)

➤ The Department of Justice settled with several universities in January 2010 over the requirement of Amazon’s Kindle DX because its speech menus were inaccessible even though it had text-to-speech capability (Sorenson, 2010).
Two Digital Marketplace Initiatives

Two states, California and Ohio, have emerged as leaders in the developing of a plan to implement a DMP infrastructure and system. California State University (CSU) has established a plan and is currently piloting a program. The Ohio Library and Information Network, OhioLINK, is a consortium of Ohio’s college and university libraries and the State Library of Ohio. OhioLINK is the first operational DMP implemented in the nation.

California State University

*Turn the Page Making College Textbooks more Affordable*, (Advisory Committee on Student Financial Assistance, 2007), outlines California State University’s (CSU) plans to implement DMP infrastructure.

- Current Snapshot and key components of infrastructure:
  - CSU is piloting a digital textbook marketplace program;
  - Primary concerns are with learning outcomes and student satisfaction;
  - A digital rights clearinghouse or central repository has not yet been developed;
  - Publishers are contracting with CSU to “license” content and receive a licensing fee per student enrolled in the class;
    CSU has negotiated a special price point on digital textbook editions (65% off new text price);
  - Campus bookstores process the student financial transactions for the purchase of the digital book editions;
  - Operational process:
    - Digital titles adopted are selected from Coursesmart list via the point of sale (POS) vendor;
    - Students register for classes and are required to purchase digital editions;
    - Students purchase access codes from campus bookstores;
    - Campus bookstores take responsibility for digital rights management by verifying manually students who are enrolled in selected course in order to approve sale of special edition digital books. (K. Ball, California State University, Fullerton, personal communication, 09/13/10; S. Ehrhorn, California State University, Digital Market Place Team, 08/24/10)
Ohio State University (OSU), OhioLINK

Ohio’s Library and Information Network OhioLINK is a DMP managed through the state’s higher education library system. It consists of a consortium of Ohio’s college and university libraries and the State Library of Ohio. Serving more than 600,000 students, faculty, and staff at 85 institutions, OhioLINK’s membership includes 17 public universities, 23 community/technical colleges, 44 private colleges and the State Library of Ohio. OhioLINK serves faculty, students, staff and other researchers via campus-based electronic library systems, the OhioLINK central site, and Internet resources.

Through a partnership with CourseSmart, a provider of electronic textbooks from the six largest commercial publishers in the United States, the University System of Ohio offers half or more off the print price of the majority of active textbooks from these publishers to students enrolled in public and private colleges and universities and adult learning programs.

OhioLINK represents the first partnership between a university system and CourseSmart, which offers nearly all of its digital textbooks at discounts of 50 to 55 percent off the new print price list. CourseSmart currently offers more than 4,000 titles, and over time more text books will be included in the program so that the opportunity for student savings will increase. Using http://textbooks.uso.edu, students can purchase textbooks through CourseSmart's catalogue. Students also have the opportunity to save through CourseSmart at campus bookstores participating in the program.

"Through a separate partnership with XanEdu, the national leader in "course packs" (articles, cases, textbook chapters, and other copyrighted materials), students now have increased access to more digital materials that supplement textbooks.” (University System of Ohio, August 10, 2010).

Student Identification and College Stores
OhioLINK authenticates, by IP address, where a student is coming from (i.e., which campus). Thus, campus stores that choose to participate will have transactions from those campuses routed through their store. For example, a student from University "X" would be recognized by their IP address, and would be presented an option to buy the digital version of the textbook from their college store with no option to buy it from Ohio State University (OSU) directly or elsewhere. Students from that institution would then pay the price set by that college store or university. This arrangement is necessary due to legal contractual obligations present on some campuses.

College stores do have an opportunity to participate and maintain ownership of the transaction -- allowing them to continue as the key authentication source for course content on a campus. By maintaining the transaction at the store level it allows students to pay for content in forms other than credit card, such as cash, financial aid, or campus-based accounts, where permitted (Nelson, 2008).
OhioLINK Course Materials Pilot Program:

- OSU purchased licenses from CourseSmart;
- Students purchased digital textbooks through a central website;
- Bookstores did not sell this course material;
- OSU dropped CourseSmart agreement due to poor sales performance;
- OSU must still meet its contractual financial obligation to CourseSmart

Lessons Learned (http://www.ohiolink.edu/about/what-is-ol.html):

- Libraries were not able to effectively communicate with faculty, especially at the course and section level;
- Program lacked effective distribution/communication channels, i.e., did not include campus bookstores;
- CourseSmart was not 508 American with Disabilities Act (ADA) compliant.

(R. Harshman, National Association of College Stores, personal communication, 08/11/10; J. Nelson, Bowling Green State University, personal communication, 08/23/10)

OhioLINK Moving Forward

The good news is that there are a number of options students can take right now to save money on college textbooks. Students can find and use learning materials in many ways, from sharing materials to checking the campus or state library OhioLINK, to searching online booksellers to renting textbooks and investigating all options at local campus bookstores (University of Ohio, August 24, 2010).

In 2010 the University of Cincinnati conducted a study, to understand student textbook preferences. The goal of the project is to work with publishers and college stores to provide students with the option to choose between textbooks and e-textbooks (Haines, 2010).

Considerations for Maryland Digital Marketplace

- As the recent Public Interest Resource Group (PIRG) study notes 2008, digital does not necessarily mean reduced cost for students either, particularly when printing and other total cost of ownership factors are added up (Nelson, 2008).

- Emerging models in the textbook industry include direct to consumer; institutional; and the traditional bookstore. Among the programs and companies working in the area include California State University's Digital Marketplace, the OhioLINK eText Project,
CourseSmart, Amazon.com, VitalSource, CafeScribe, and the National Association of College Stores (NACS).

The NACS board approved a three-part strategy to increase partnerships, especially with publishers, CourseSmart and other campus groups and institutions; enhance trade infrastructures; and increase education and awareness (Mutter, 2008).

- CourseSmart, the largest online marketplace for e-textbooks, produces, by admission, what can only be characterized as dismally inaccessible e-texts (Booth, 2010).

- The Department of Justice and the Department of Education issued a joint warning to colleges and universities regarding the use of e-readers and the accessibility of the blind (Sorenson, 2010).

- The Department of Justice settled with several universities in January 2010 over the requirement of Amazon’s Kindle DX (Sorenson, 2010).

- Groundbreaking work has been done by California State University (CSU). When fully developed, CSU’s statewide solution may be the first step toward a national digital marketplace for voluntary use by other states, colleges, faculty, and students.

- Short- and long-term efforts to improve textbook affordability must be led by college and university faculty, bookstores, publishers, and other stakeholders to interact efficiently.

- The college textbook marketplace is evolving and changing due to emerging technology and competition. This has produced in essence several different marketplaces within the industry. However, no one approach meets all students’ needs. The focus then is to offer the consumer choices in multiple formats.

- College stores do have an opportunity to participate and maintain ownership of the transaction -- allowing them to continue as the key authentication source for course content on a campus. By maintaining the transaction at the store level it allows students to pay for content in forms other than credit card, such as cash, financial aid, or campus-based accounts (where permitted).

- Groundbreaking work has been done by California State University (CSU). When fully developed, CSU’s statewide solution may be the first step toward a national digital marketplace for voluntary use by other states, colleges, faculty, and students.

- While e-texts have gained popularity, they have become more inaccessible for the blind and print-disabled because of steps to protect the intellectual property of vendors.
RECOMMENDATIONS

➢ Keep in mind that no one DMP approach meets all students' needs. The focus then is to offer the consumer choices in multiple formats. The college textbook marketplace is evolving and changing due to emerging technology and competition. This has produced in essence several different marketplaces within the industry.

➢ Further study: 1) the status of accessibility for blind and print-disabled students and; 2) conduct a needs assessment for state-wide enhancements of access.

➢ There is a need for an industry initiative or incentive to create a universal access model for e-texts or cross-platform model for e-readers. One possibility is to utilize a large buying consortium to create advocacy and affect positive changes from publishers.

➢ Short- and long-term efforts to improve textbook affordability through the use of DMP must be led by college and university faculty, bookstores, publishers, and other stakeholders to interact efficiently.

➢ College stores need to be given the opportunity to participate in the DMP infrastructure collaboration and maintain ownership of transactions -- allowing them to continue as the key authentication source for course content and print management access on a campus. By maintaining the transaction at the store level allows students to pay for DMP content in forms other than credit card, such as cash, financial aid, or campus-based accounts (where permitted). This is key to keeping instructional materials dollars on campus and contributing to college and university assets.

➢ Investigate instructional materials accessibility training for Maryland higher education institutions through the Association of Higher Education and Disabilities (AHEAD). Training is now available which assists higher education institutions to find solutions to the issue of providing students with print related disabilities access to instructional materials in a manner that is timely and accurate and, as nearly as possible, allows the student to obtain the information needed for his or her education in a manner equivalent to that of their non disabled peers. (AHEAD, 2010)

➢ A full feasibility study is not recommended at this time. It is not practical now due to the fact that only one state, Ohio, has actually implemented a DMP plan and California appears to be the only state currently piloting a DMP. Consequently there is not enough current evidence of successful DMP programs, best practices or outcomes to develop a full feasibility study at this time.
Consider the implications of the groundbreaking work that has been done by California State University (CSU). When fully developed, CSU’s statewide solution may be the first step toward a national digital marketplace for voluntary use by other states, colleges, faculty, and students.

Study of the experiences and best practices used by CSU’s pilot program and OhioLINK, including data related to outcomes of these DMP programs, will eventually be an important part of a future feasibility study.

Develop a Maryland State-wide DMP consortium to help facilitate the eventual development of MD DMP components state-wide, including the use of Lyrasis, the consortia purchasing vendor of MD Digital Libraries, as a state-wide vendor for accessing digital databases. The goal of such a DMP consortium would be to obtain better pricing and purchasing systems for databases.

Consider the using the current Maryland higher education digital libraries management model which includes the use of Easy Proxy server for support of a state-wide DMP. It might be possible to develop a DMP affiliate to ensure access to DMP materials for statewide higher education institutions.

REFERENCES


CourseSmart (Month, Year, Day) Title of Post, Retrieved from http://en.wikipedia.org/wiki/CourseSmart


EXECUTIVE SUMMARY

TEXTBOOK RENTAL PROGRAM PRELIMINARY FEASIBILITY REVIEW

Objective and Scope

Background

Approach

Key Facts & Assumptions
  Maryland System
  Public Institution Textbook Rental Programs
  For Profit Textbook Rental Partnerships

Review of Textbook Rental Programs
  Review of Higher Education Institutional Textbook Rental Programs
  Review of Maryland Institution Textbook Rental Programs
  Review of Outsourced Private Textbook Rental Partnerships
  Summary of Lessons Learned from Textbook Rental Programs Review
    Key Rental Program Factors
    Key Rental Program Benefits and Limitations

Key Maryland Policy Considerations for a Textbook Rental Program
  Organizational Structure Decision
  Program Participation Decision
  Rental Textbook Coverage Decision
  Business Model Decision

Key Maryland Operational Factors for a Textbook Rental Program
  Maryland Rental Program Academic Considerations
    Institutional Autonomy
    Academic freedom
  Maryland Rental Program Economic Considerations
    Student textbook Cost Savings
    Institution Initial Investment
    Institution Annual Operating Costs
    Funding Sources
    Cost Benefit analysis
  Maryland Rental Program Administrative Considerations
    Development and Implementation Timeline
    Development of Policies and Processes

FEASIBILITY REVIEW SUMMARY AND RECOMMENDATIONS

Summary of Textbook Rental Feasibility Review
Academic and Economic Viability
Alternative Business Models
Alternative Organizational Models

Initial Recommendations to MHEC
Recommendations
Justification
EXECUTIVE SUMMARY

The purpose of this report is to present the findings and recommendations derived from the MHEC Subcommittees’ preliminary review regarding the feasibility of establishing sustainable academic and economically viable Textbook Rental Programs for Maryland Higher Education Institutions. The general approach employed in this review was to research the available information on textbook rental programs, evaluate this information relative to the specific academic objectives and culture of Maryland’s higher education institutions, and then assess the feasibility of Maryland textbook rental programs. The research included a review of other state’s higher education institution’s textbook rental program studies, a review of the experience of several Maryland institutions with existing textbook rental programs, and an examination of the alternative approach of a for-profit textbook rental partnership. The information obtained from this research was subjectively evaluated to: (1) identify the major types of textbook rental programs, (2) develop a set of textbook rental program “lessons learned,” and (3) determine the key factors to consider in implementing a successful Maryland textbook rental program.

The results of this review indicate that under the “right conditions” higher education institutions can implement academic and economically viable textbook rental program of significant scope leading to student textbook saving on the order of 55%, when compared to a new textbook. Key issues to be addressed to secure the “right conditions” include: an appropriate Maryland rental organization structure, assuring institutional autonomy and academic freedom in textbook rental programs, assuring the rental programs’ economic feasibility, and selecting the most favorable textbook rental business model. The Maryland rental organization structure that appears to best satisfy the requirement for institutional autonomy is a decentralized coordinating committee structure. The core mission of this committee would be to coordinate, facilitate and support the various individual Maryland institutions electing to engage in textbook rental programs. The academic freedom issue can be addressed by either, a program of voluntary faculty acceptance of the extended textbook adoption periods required for a rental program’s economic viability or entering into for-profit partnerships where the partner’s large rental titles inventory precludes the requirement for faculty extended adoptions. Last, but not least, assuring economic viability will require providing for the heavy upfront investment costs in any textbook rental program, which can average up to $10 million for a large university with significant rental program. Given the current economic environment, the only feasible investment solution for large scale textbook rental programs is a for-profit/institutional partnership, where all the upfront investment cost and the bulk of the annual operating costs of the textbook rental program are borne by the partner.

Based on the results of our review to date, the Textbook Rental Subcommittee recommends that MHEC Textbook Affordability Committee proceed with the continued study of a statewide Maryland textbook rental program by establishing a MHEC Textbook Rental Coordinating Committee to centrally coordinate, facilitate and support the Maryland institutions electing to implement textbook rental programs. This committee would coordinate and support the participating Maryland institutions to develop and implement textbook rental programs of significant scope utilizing for-profit partnerships to overcome the significant up front investment costs. Where for-profit partnerships are not feasible, the Committee would encourage participating institutions to develop small stand-alone textbook rental programs where deemed warranted.

The justification for this recommendation is that it provides an efficient and effective method for Maryland institutions to proceed with a coordinated, yet individual institution-focused, approach to develop and implement Maryland textbook rental programs that will provide significant student textbook savings while assuring the essentials of institutional autonomy and faculty academic freedom.
TEXTBOOK RENTAL PROGRAM PRELIMINARY FEASIBILITY REVIEW

OBJECTIVE & SCOPE

The primary purpose of this report is to present the results and recommendations derived from the MHEC Subcommittee’s preliminary review of the feasibility of establishing a sustainable Textbook Rental Program for Maryland Higher Education institutions. The specific objective of this preliminary feasibility study is to determine if a textbook rental program could provide Maryland institutions a sustainable academic and economically sound method of reducing student textbook costs and, therefore, should be considered for incorporation into the Maryland Textbook Affordability Initiative. This preliminary study is limited to an examination of the following five factors: (1) identification of the key textbook rental program considerations; (2) a review of comparable textbook rental program results; (3) a review of existing Maryland textbook rental programs; (4) an assessment of Maryland’s suitability for a textbook rental program, (5) an identification and examination of the advantages and disadvantages of the major types of rental programs as related to alternative Maryland System textbook rental programs. Based on a review and analysis of the above factors, recommendations will be made as to the potential viability of a Maryland System Textbook Rental Program and any proposed follow-up actions.

Due to constraints in time and resources, this initial research study is limited to providing a preliminary perspective on the potential feasibility of a Maryland System Textbook Rental Program. If it is decided to pursue this preliminary study further, a Formal Maryland Textbook Rental Study involving all key stakeholders would have to be developed and implemented. This follow-on formal study if undertaken would require an expanded committee with academic and administrative representation from each Maryland higher education institution and likely include: surveys of Maryland institutions stakeholders; formal evaluations of alternative textbook rental models; detailed investment and annual cost estimates for alternative rental programs; review and outline of required policies and processes, facility requirement, staffing estimates; consideration rental fee structure, funding alternatives, and an overarching cost/benefit analysis.

BACKGROUND

MHEC recognizes that the rising cost of course materials must be addressed in order to maintain Maryland’s goal of higher education access and affordability for our students and to comply with: (1) Compliance with HEOA, federal law and (2) Maryland Statute 15-112 - Sale of College Textbooks (3) Maryland Board of Regents Policy III.10.00 - Textbook Affordability to the applicable institution. If feasible academically and economically, a textbook rental program could provide one additional capability for achieving the Maryland objective of reducing the costs of student course materials.

Maryland Higher Education Requirement

MHEC has been tasked to conduct by December 1, 2011, a feasibility study, in consultation with the University System of Maryland, St. Mary’s College of Maryland, Morgan State University, the Maryland Association of Community Colleges, and the Maryland Independent College and University Association,
regarding the establishment of textbook rental programs, the establishment of a statewide digital marketplace, and the accessibility of this marketplace to blind and print-disabled individuals. By December 31, 2011, MHEC is to submit the results of the feasibility study and recommendations regarding policy initiatives that will further ameliorate the (high) cost of undergraduate and graduate education as impacted by textbook prices.

**MHEC Subcommittee Assignment**

At the April 1, 2010 Intersegmental Advisory Group meeting a subcommittee was established consisting of Diane Hampton, Pat Alt, Marcy Gannon, and Mary Harmon - with Don Stabile as chair. This subcommittee was tasked by Dr. Reid to review and make recommendations on what the State of Maryland should do in the following three areas: (1) the establishment of a textbook rental program, (2) the establishment of a statewide digital marketplace from which digital textbooks can be secured, and (3) how the State can make textbooks more accessible to the blind and print-disabled. This report specifically addresses one of these tasks - the establishment of textbook rental programs.

**APPROACH**

The general approach employed in this preliminary study was to research and subjectively evaluate the readily available information on textbook rental programs and then compare this information to the specific objectives and academic culture of Maryland’s higher education institutions. The research included a review of a representative sample of the literature related to existing higher education institution textbook rental programs, a review of the experience of several Maryland institutions with existing textbook rental programs, and a review of for-profit outsourcing of a textbook rental programs. The information obtained from this research was then heuristically evaluated to: (1) determine the major types of feasible rental programs, (2) establish a set of textbook rental program “lessons learned,” and (3) determine the key factors to consider in implementing a successful Maryland textbook rental program. The knowledge gained from this research was then applied to a set of subjectively defined inherent cultural characteristics and objectively defined legislative requirements to determine the academic and economic feasibility of a Maryland textbook rental program.

**KEY FACTS AND ASSUMPTIONS**

The following are the key facts and assumptions that that were utilized as a base in the preparation of this research study. The key facts and assumptions are organized into three categories: (1) those that apply to the Maryland Higher Education System, (2) those that were synthesized from the literature and considered as applicable to higher education institution textbook rental programs in general, and (3) those that were researched from the literature and conversation with for-profit textbook rental organizations working in partnership with higher education institution.
Maryland System - Key Facts and Assumptions

Key Facts

- The primary objective to be achieved in any Maryland Textbook Rental Program is to provide students with an alternative textbook source that will offer significant savings.
- Any Maryland Textbook Rental Program must satisfy all the requirements of Maryland Statute 15-112 - Sale of College Textbooks as applicable to institutions.
- There are 57 higher education institutions accredited within the state of Maryland: 19 public colleges and universities, 21 private colleges and universities, and 16 community colleges.
- Most of these institutions have virtual or online stores and nine of them have textbook rental programs of some type.
- The Maryland Statute 15-112 - Sale of College Textbooks; specifically states that no portion of the statute is intended to restrict academic freedom or institutional autonomy in the selection of course materials.
- The Maryland Higher Education Institutions are essentially independent in their academic operations and represent a wide variety of academic administration, faculty cultures, and academic/operational cultural environments.
- The Maryland legislative textbook rental program may adversely impact the revenue of those academic institutions that have internal bookstores.
- The geographic dispersion of the higher education institutions will significantly complicate a central textbook rental facility, requiring consideration of expedited mail or subsidiary sites.

Key Assumptions

- The administration and academic sectors of each Maryland higher education institution must be involved in the development and implementation of any state-wide textbook rental program and, under institutional autonomy, have the authority to opt in or out of any textbook rental program.
- Aside from offering significant textbook cost savings to the student, to be considered viable, any Maryland textbook rental program should also satisfy the following requirements:
  - The rental program must be economically acceptable.
  - The rental program must be sustainable.
  - The rental program may not supersede the institutional autonomy or academic freedom of faculty members involved in the selection of course material.
  - The rental program must be accepted by the academic institutions and their faculty.
- Any Maryland textbook rental program must be fully funded at startup and subsequently funded for annual operations or generate sufficient revenue from rentals to operate at least break even.
- There are two major types of textbook rental programs: 1) institution controlled and operated programs and 2) for-profit controlled and operated programs; and within each major type there are a range of alternative models.
Public Institution Textbook Rental Programs - Key Facts and Assumptions

Key Facts

- According to a 2007 National Association of College Stores (NACS) report, approximately 25 postsecondary institutions, less than 1% of nationwide colleges and Universities, offered some form of textbook rental program.

- Based on the above NACS survey, of the 25 existing textbook rental programs:
  - The majority of rental programs have been in existence since the institution’s inception.
  - 33% of the rental programs require mandatory student participation.

- The existing higher education institutional textbook rental programs can be categorized into three types:
  - full coverage programs for the majority of course materials --- 67%
  - limited programs, for specific grade levels or subjects ----------- 19%
  - mixed programs, a hybrid of full and limited programs ----------- 14%

- Based on the results of an OnCampus Research Textbook Rental Survey:
  - Approximately 12% of survey respondents have participated in at least one textbook rental program and 72% of this group would consider renting again.
  - Approximately 44% of the respondents who have never rented say that they would consider renting if the option were made available.
  - In deciding whether or not to rent textbooks the most important factor was price, followed by: length of rental period, and the convenience of the rental process.
  - The most common rental locations are textbook rental websites (57%) followed by college bookstores (35%).

- Students can generally rent a textbook for approximately one-third the cost of a new text; however, the savings may not be as great as expected, since it’s difficult to account for all of the various factors that are involved. Such factors include the scope of the rental program, operating and overhead cost, and or negotiate contracts with for profit rental companies.

- Eight percent of the survey respondents to the OnCampus survey expressed no concerns with a textbook rental program. The major concerns expressed regarding a textbook rental program were:
  - The rental price (67%)
  - A too-early textbook return requirement (50%)
  - The hassle of the textbook return process (49%)
  - Worry about subsequently wanting to keep the textbook for future use (47%)

- According to an Illinois Board of Education study, the size of Illinois textbook rental programs range from 400 to 15,000 students with the mean participation being 6,015 students.

- The same Illinois study estimated that the mean estimated cost to create a textbook rental program would be $2.6 million; and their anticipated major sources of funding would be rental fees/fines (90.5%), book sales (28.6%), and university monies (14.3%).
Key Assumptions

- The number of textbook rental programs are continuing to expand in response to legislative activity and academic institutions pressure to reduce the cost of student course materials.
- Some higher education academic institutions have elected to forgo textbook rental programs for the following reasons:
  - The program is resource intensive
  - The program requires a large initial capital investment
  - Many textbook rental programs are available from the private sector
- To be economically viable, an academic institution's textbook rental program must require:
  - Some standardization of textbooks for a given course
  - A longer adoption period, 2-3 years to recapture initial outlays
- The rental program has a high risk of faculty resistance based on the concern of academic freedom being restrained by the requirement for textbook standardization and extension.

For-Profit Textbook Rental Programs - Key Facts and Assumptions

Key Facts

- A number of large for-profit companies, including Barnes and Noble - $12 billion revenue and Follett - $2 billion revenue, have recently entered the textbook rental market and joined the earlier, but smaller, entrées Chegg, Bookrenter, and Skootbit.
- These programs usually work either through an exclusive or non-exclusive arrangement with bookstore or direct contract and can operate from a bricks & mortar store or virtual bookstore.
- Rental titles available through large non-profit companies fall into two general categories: (1) a national list of specific titles, which varies by company in which textbooks are of such general use that they can be rented without any commitment to an adoption period being required, and (2) lists of specific titles unique to an institution in which the for-profit companies require commitment of four or more academic terms and some minimum sales volume.

At present, the number of titles offered by for-profit companies for rent varies significantly and range up to 17,000 unique ISBNs for major rental company national list. In addition, several for-profit companies claim to have up to a million titles available for rent through hundreds of institution bookstores with specific commitments to adoption periods.

Assumptions

- Given recent announcements from Barnes and Noble and Follett, it is anticipated that the major textbook rental companies will significantly expand. It is also expected that new rental companies will enter the market over the next few years to take advantage of the opportunity inherent in textbook rental programs price savings.
• Outsourcing or partnering with a for-profit textbook rental company could provide an economic approach to offering Maryland students the benefits of textbook rentals without incurring the significant upfront investment cost inherent in most rental programs.

REVIEW OF TEXTBOOK RENTAL PROGRAMS

The preliminary research on textbook rental programs focused on three specific topic areas: (1) comparable state focused public higher education textbook rental programs, (2) existing Maryland higher education textbook rental programs, and (3) for-profit outsourced textbook rental partnerships.

Review of Higher Education Institutional Textbook Rental Programs

In the review of literature related to the establishment of a statewide higher education textbook rental programs, two studies were found that formally evaluated comparable textbook programs: (1) the Illinois Board of Education – “Report on the Feasibility of Textbook Rental Programs and Other Textbook Cost Savings Alternatives in Illinois Public Higher Education” and (2) the Arizona Board of Regents “2008 Report on Implementation of Recommendations of the Task Force on Textbook Costs”.

Illinois Feasibility Study

Feasibility study description - Of the two comparable textbook rental programs, the Illinois program provides the most relevant information for consideration of a Maryland textbook rental program. This 70 page feasibility report was an extensive research study of all aspects of statewide higher education rental program and which included: extensive surveys of all key stakeholders, comparative reviews of Illinois rental programs, detailed cost estimates, potential sources of funding, rental fee structures, and discussion of rental program benefits and limitations. This detailed feasibility study could potentially serve as a well structured model for any follow-on definitive Maryland textbook feasibility study.

Existing textbook rental program summary - The Illinois textbook rental programs are established and maintained by the individual academic institutions within the Illinois Higher Education System. All of the rental programs are based on rental fees with significant late return charges, require an extended period of textbook commitment on the part of the institution to allow recovery of the initial investment, and require detailed administration and inventory control. Each of the rental facilities has its own separate work space either located in the institution’s bookstore or at a separate facility. Each textbook rental facility is staffed with a combination of full-time and part-time staff.

Existing program economic parameters – A summary of some key economic parameters for the five textbook rental programs currently operational in the Illinois System are as shown in the table below:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Mean</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>7,490</td>
<td>13,460</td>
<td>767</td>
</tr>
<tr>
<td>Textbook Commitment</td>
<td>3 years</td>
<td>3 years</td>
<td>2 years</td>
</tr>
<tr>
<td>Inventory Size</td>
<td>80,462</td>
<td>210,000</td>
<td>6,200</td>
</tr>
<tr>
<td>Inventory Value</td>
<td>$3,161,337</td>
<td>$7,000,000</td>
<td>$245,000</td>
</tr>
<tr>
<td>Rental Fee/ credit hour</td>
<td>$8.45</td>
<td>$10.00</td>
<td>$6.45</td>
</tr>
<tr>
<td>Rental Space</td>
<td>5,868 sq. ft.</td>
<td>11,800 sq. ft.</td>
<td>1,500 sq. ft.</td>
</tr>
<tr>
<td>Number full time employees</td>
<td>3</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Number of temporary employees</td>
<td>21</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>
*Estimated future startup and operating costs* - Based on the experience of the existing textbook rental programs, the Illinois feasibility study estimated the expected start up investment and annual operating costs for their Community Colleges and Public Universities. These startup/operating cost estimates are summarized in Table 2 below:

<table>
<thead>
<tr>
<th>Institution / Cost</th>
<th>Mean</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Community Colleges</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment (Startup) Costs</td>
<td>$2,500,000</td>
<td>$3,900,000</td>
<td>$454,000</td>
</tr>
<tr>
<td>Annual Operating Costs</td>
<td>$1,300,000</td>
<td>$3,300,000</td>
<td>$32,000</td>
</tr>
<tr>
<td><strong>Public Universities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment (Startup) Costs</td>
<td>$10,000,000</td>
<td>$20,200,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Annual Operating Costs</td>
<td>$3,800,000</td>
<td>$10,900,000</td>
<td>$784,612</td>
</tr>
</tbody>
</table>

The major cost components constituting the initial investment and annual operating costs for the average Illinois Community College and Public University are outlined in Table 3 below:

| Major Cost Elements | Community Colleges | | Public Universities | |
|---------------------|--------------------|-----------------|---------------------|
|                     | Investment         | Annual          | Investment         | Annual          |
| Total Estimated Average Cost | $2,500,000 | $1,300,000 | $10,000,000 | $3,800,000 |
| Textbook Inventory  | $1,959,000        | $865,000        | $8,393,000        | $2,930,000        |
| Personnel & Benefits| $ 231,000         | $245,000        | $ 468,000         | $ 262,000        |
| Commissions/Contract/Lease loss | $ 105,000 | $ 92,000 | $ 238,000        | $ 153,000        |
| Space               | $ 37,000          | $ 5,000         | $ 598,000         | $ 90,000         |
| Equipment & Fixtures| $ 35,000          | $ 19,000        | $ 245,000         | $ 5,000          |
| Computer Systems / Software | $ 29,000 | $ 5,000 | $ 54,000          | $ 11,000          |
| **Subtotal of Major Costs** | $2,396,000 | $1,231,000 | $9,996,000 | $3,451,000 |

*Potential sources of startup funding* – While it is anticipated that the annual operating costs of the textbook rental program would be covered by the combination of student rental fees and late return charges, the initial startup costs represent a significant funding requirement. The Illinois feasibility study proposed the following four funding alternatives:

- State Appropriations made directly to the colleges and universities with no repayment required.
- The State could set up and administer a grant program for institutions interested in pursuing textbook rental programs.
- The State could provide a source of capital for a low cost revolving loan fund.
- The institutions could borrow the major inventory investment under an Illinois Finance Authority – Inventory Bond issuance.

*Illinois considerations for a successful textbook rental program* - The Illinois feasibility study identified the following five considerations which it considered instrumental for a successful textbook rental program:

- Mandatory rental fees sufficient to cover the annual operating costs of the textbook rental program.
• Faculty members, administration, and students must reach a consensus that the rental program to be established is an effective method to reduce textbook cost while maintaining academic quality.
• The startup cost of implementing the textbook rental program must be realistically addressed and funded.
• Textbook rental space must be found and operating costs considered.
• Textbook rental policies and procedures must be established and maintained.

Arizona Feasibility Study

Feasibility Program Description:
The information obtained for the Arizona feasibility study was contained in the “2008 Report on Implementation of Recommendations of the Task Force on Textbook Costs. Compared to the Illinois report, the information available about the Arizona textbook rental program is very limited. This 24 page report advises that the Board of Regents plans to create/expand a textbook rental program to all the university campuses using the University of Arizona pilot program as a model. Experience with the pilot program indicated the following areas of concern in the roll-out to the entire Arizona System.
• Need for significant relationship between the bookstore and faculty and other campus entities
• Textbook usage will be limited to a few basic titles for lower level classes
• Textbooks selected for rental have to be adopted for a minimum 2 to 3 years to amortize initial purchase cost
• A collection process must be developed and implemented for non-returned rental textbooks

Review of Maryland Institution Textbook Rental Programs

Summary of Maryland Textbook Rental Program
Of the 57 accredited Maryland higher education institutions, at the present time, nine have textbook rental programs - five public colleges and universities and four community colleges. Bowie State University; Carroll Community College; University of Maryland, College Park; and the University of Maryland, Eastern Shore have entered into partnerships with for-profit companies for textbook rentals and management of store operations. College of Southern Maryland and Frederick Community College operate their own institutional textbook rental programs. Harford Community College, St. Mary’s College of Maryland, and Towson University are institutionally owned bookstores that have partnered with for-profit rental companies. Most of the Maryland rental programs are relatively new and provide only a limited coverage of the institutions’ required textbooks. A short description of the Maryland institutional textbook rental programs and for-profit partnership rental programs are summarized below.

Maryland Institutionally Operated Textbook Rental Programs

College of Southern Maryland
The College of Southern Maryland textbook rental program appears to be the largest rental program operating in the State of Maryland. This textbook rental program has been in operation since spring
2008 and is independently operated by the college. The program was started with 2 textbooks with an inventory of 54 copies and has expanded to 18 different textbooks with an inventory of 822 copies as of fall 2010. To participate in this rental program faculty sign agreements committing to a two-year adoption period. The rental price is established at 40% of the price of a new textbook and is fixed for the life of the rental commitment period. Students check out their rental books at the beginning of the semester by signing a rental agreement and return the book at the end of the semester. A late return penalty fee of $5.00 is enforced. The initial investment cost for this program was $5,622.00 and was funded by the college. Current annual operating costs are estimated at $24,414.00 with minimal increases to labor expenses. It is estimated that the College of Southern Maryland students utilizing the textbook rental program realized a savings of $77,632 in FY2010.

*Frederick Community College*

The Frederick Community College textbook rental program was initiated in fall 2009 and is largely based on the College of Southern Maryland’s. This textbook rental program is independently operated by the community college and remains in the pilot stage as fall 2010. The program was started with two textbooks of 50 copies each in the fall of 2009 and no additional course materials have been added to date. To participate in this rental program, faculty sign agreements committing to an adoption period of five semesters. The rental price is established at half the price of a new textbook and is fixed for the life of the rental commitment period. Students check out their rental books at the beginning of the semester by signing a rental agreement and return the book at the end of the semester. No return penalty fees are assessed for late rentals. The initial investment cost for this program was $8,246.24 and was funded by the college. Current annual operating costs are estimated at approximately $500.00 with minimal increases in labor expenses. It is estimated that Frederick Community College students utilizing the textbook rental program realized a savings of $12,171.00 in FY2010.

*St. Mary’s College of Maryland*

Starting in fall 2010 St. Mary’s College of Maryland will inaugurate a pilot textbook rental program for two courses. The rent will be based on the initial purchase price from the vendor minus the buyback price guaranteed in advance by the vendor. Since the vendor will only guarantee a buyback price for one semester, the program and rental fees will only run for the fall semester.

*Harford Community College*

This is an institutional bookstore with a partnership with MBS for textbook rentals. They started this semester with four titles and rent at 50% off the new price book.

*Towson University*

This is an institutional bookstore with a partnership with MBS for textbook rentals. They started this semester a limited number of titles and rent at 50% off the new price book.

*Maryland For-Profit Partnership Textbook Rental Partnerships*

*Follett Higher Education Textbook Rental Programs Partnerships*

In the last year the Follett Higher Education Group, a for-profit company, has entered into a textbook rental partnership with two universities: Bowie State University and the University of Maryland, Eastern Shore, to participate in the 2010 “Follett Rent-A-Text Program” a nationwide textbook rental program. This program is entered into by signing an acceptance letter. The textbook selection process for the rental program allows for campus flexibility to adhere to faculty concerns on academic freedom. If a textbook from the Follett national textbook list is not selected, commitment to a four term adoption
period is required for inclusion in the Follett Rent-A-Text Program. Students are required to provide ID, collateral (a credit card), and an e-mail address at the time of rental. The rental fee is targeted to be approximately 50% the cost of a new textbook, there is 7.5% penalty fee for late return and for non-returned textbooks the student is charged the new textbook price plus the penalty fee. Follett is responsible for the administration, inventorying, shipping, and account collection. A commission rate on each rental is established with the partner institution. Given the recent implementation of the Follett textbook rental program, there is no experience-based performance data yet available.

Barnes and Noble Bookseller Textbook Rental Partnerships
The Barnes and Noble Booksellers, a for-profit company, has entered into a textbook rental partnership with the University of Maryland, College Park. The terms and conditions of this partnership are similar to Follett program: only selected textbooks are available for rental, the rental fee is targeted to be approximately 50% the cost of a new textbook, the students are required to sign a rental agreement with Barnes and Noble, textbooks are either picked up or shipped from Barnes and Noble, and there are penalty fees for late and non-returns. Barnes & Noble is responsible for the administration, inventorying, shipping, and account collection. A commission rate on each rental is established with the partner institution.

Review of Outsourced Private Textbook Rental Partnerships
In addition to a literature review of other states comparable institution textbook rental programs and existing internal Maryland institution textbook rental programs, a cursory review of literature related to the private sector textbook rental programs was undertaken using which included literature research and selected vendor contacts.

Identification of Major For-Profit Textbook Rental Companies
A review of the related literature identified the following major for-profit textbook rental companies: Barnes and Noble Booksellers, BookRental.com, Chegg.com, eCampus.com, Follett Higher Education, and Skoobit. Of these companies, Barnes and Noble, Chegg.com, and Follett On-line appear to be the largest. It is interesting to note that the two largest for-profit companies, Barnes and Noble and Follett are recent entries to the textbook rental market, having entered through their bookstore relationships. They have announced plans for a major expansion of rental plans.

Summary Description of For-Profit Textbook Companies
The following textbook rental company descriptions provide an illustration of some of the major players currently operating in the rapidly accelerating textbook rental market. There are two factors of potential interest discernable in this list. The first is the recent emergence of textbook rental market as evidenced by the 2008 and later entry of all the companies listed. Second, textbook rental companies division into two clear segments of competitors: (1) the major companies entering the market — Barnes and Noble, and (2) the entrepreneurial startup companies that preceded them — Chegg.com, Book Renter.com, etc.

Barnes and Noble Booksellers - The largest book retailer in the country with $12 billion in revenue, 40,000 employees, and 777 stores serving 250,000 faculty and nearly four million students. Barnes and Noble piloted a test textbook rental program in January 2010 and based on exceptionally successful
results plans to expand this rental program to all 600 institutions where it currently operates bookstores. Barnes and Noble has recently initiated a rental program at the University of Maryland, College Park.

**Follett Corporation** – The nation’s largest operator of college bookstores is a large $2.7 million, privately held company with 10,000 employees that supplies a variety of book-related services to over 800 schools, colleges, and libraries. Supported by its recent investment of $120 million in textbook rental inventory, Follett claims to be the fastest growing textbook rental company with over 800 rental programs in operation in fall 2010. Follett recently initiated rental programs at Bowie State University and University of Maryland, Eastern Shore.

**Chegg.com** - Founded in 2008, it is a fast entrepreneurial, venture capital financed company with revenues estimated in the $50 to $100 million range and total venture capital financing in the range of $150 million. The firm rents textbooks to students on over 4,000 college campuses.

**BookRenter.com** – A California–based online book rental service with revenue of $20 million and employing less than 100 full time staff. Bookrenter.com was founded in 2008 and is credited with being the first online book rental service.

**Skoobit** – A privately held textbook rental company founded in 2008. No significant information was found about this company, however, they are considered to be about the same size as Chegg.com.

**eCampus.com** - A Kentucky-based full service virtual campus bookstore with revenue of $500,000 and employing 5-10 full time staff.

**Key Factors in Outsourcing/Partnering with For-Profit Textbook Rental Companies**
Table 4 below is a summary extract of some key features related to two major for-profits textbook rental companies obtained from web research including the NACS chart “Textbook Rental Programs Features and Benefits Comparison.”
### Table - 4 Selected Features of For-Profit Textbook Rental Program

<table>
<thead>
<tr>
<th>Key Features</th>
<th>Barnes and Noble</th>
<th>Follett</th>
<th>Chegg.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership Requirement</td>
<td>Options open to all stores</td>
<td>Options open to all stores</td>
<td>Select Bookstore</td>
</tr>
<tr>
<td>Agreement Exclusivity</td>
<td>Not exclusive</td>
<td>Not exclusive</td>
<td>Exclusive</td>
</tr>
<tr>
<td>Payout % per term</td>
<td>Commission</td>
<td>Commission</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>Payout dates</td>
<td>Monthly</td>
<td>Semi Annual</td>
<td>Monthly</td>
</tr>
<tr>
<td>Title availability</td>
<td>300,000+</td>
<td>300,000+</td>
<td>1,000,000+</td>
</tr>
<tr>
<td>Potent entail Student Savings</td>
<td>Over 50% of New Textbook</td>
<td>Over 50% of New Textbook</td>
<td>Over 50% of New Textbook</td>
</tr>
<tr>
<td>Marking &amp; Stickerig Limitations</td>
<td>Standard used book</td>
<td>Standard use book</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>After-rental market</td>
<td>Used Book market</td>
<td>Used Book market</td>
<td>Used Book market</td>
</tr>
<tr>
<td>On-line rental option</td>
<td>Yes On-line only</td>
<td>Yes On-line only</td>
<td>Online &amp; POP kiosk</td>
</tr>
<tr>
<td>Retail Price ( new &amp; used same)</td>
<td>Competitive Algorithm</td>
<td>Competitive Algorithm</td>
<td>Competitive Algorithm</td>
</tr>
<tr>
<td>Retail Price Flexibility</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Rental Duration</td>
<td>15,30,45,60,90, or 125 days</td>
<td>30,60,90, or 125 days</td>
<td>30,60,90, or 125 days</td>
</tr>
<tr>
<td>Return Commitments</td>
<td>Student only, Date =?</td>
<td>Student only, Date = 10 day</td>
<td>Student only, Date =?</td>
</tr>
<tr>
<td>Non Return Loss/ Collection</td>
<td>Barnes and Noble</td>
<td>Follett</td>
<td>Chegg</td>
</tr>
<tr>
<td>Support of Admin/ Faculty</td>
<td>Not required</td>
<td>Not required</td>
<td>Not required</td>
</tr>
<tr>
<td>Length of Adaption Period</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Customer service</td>
<td>Tier 1 &amp; 2</td>
<td>Tier 1</td>
<td>yes</td>
</tr>
</tbody>
</table>

### Summary of Lessons Learned From Textbook Rental Program Review

A review of the above textbook rental programs yielded some valuable insights and lessons learned that could be applied in evaluating the academic and economic viability of establishing and maintaining a successful Maryland higher education textbook rental program. These considerations are summarized below along with an estimate of the expected benefits and limitations to be obtained from the rental program.

### Key Rental Program Factors

The following is a list of the key factors that must be considered in implementing a successful textbook rental program and is derived from the above textbook rental review.

1. **Institutional Autonomy and Academic Freedom in Textbook Selection** – Assurance of continuation of institutional autonomy and academic freedom in the selection of textbooks must be specifically provided for in any textbook rental program. This will require either academic support for the rental program, limitation of textbooks in the program to those acceptable to the rental partner, or likely some combination of both.

2. **Acceptable Program Cost Benefit Results** – The textbook rental program must demonstrate the textbook savings accumulated by the students are sufficient to warrant the initial investment and annual operating costs.
3. The Textbook Rental Program Model - There is a significant economic advantage in investment cost, operating costs, development time, and administrative effort between developing a textbook rental program under a for-profit partnership model as opposed to a stand-alone institution model.

4. The Size and Scope of the Rental Program – A key factor in determining the potential textbook savings to students are the number of textbooks in the program and the number of copies of each maintained in the rental inventory. Institutional programs with limited rental editions are easy to set up, but offer limited student textbook rental savings.

5. A Committed Adoption Period – To be economically viable, a textbook rental program requires that the faculty agree to commit to that textbook for a period of four to six terms. Otherwise, the rental savings are significantly reduced through lost turnaround.

6. Rental Fees and Penalty Fees – The rental fees, late return fees, and non-return penalties must be established as to clearly provide a significant student savings over alternative textbook sources.

7. Rental Program Business Processes – The rental program business processes must provide for the efficient controlled ordering, receipt storage shipping, and accounting of the required rental material, as well as, the student friendly rental, usage, and return of the rented textbooks.

8. Rental Facilities and Administrative Cost – Provision must be made for appropriate brick and mortar storage facilities to house the inventory, as well as, administrative offices, staff, and computer systems to track the rental inventory and transactions.

Key Rental Program Benefits and Limitations
The reported benefits and limitations of a rental program can vary significantly depending on whether it is an institutional stand alone program or a for-profit partnership a shown in Table 5 below.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Institutional Stand Alone Model</th>
<th>For-Profit Partnership Model</th>
</tr>
</thead>
</table>
| 1. Significant student saving of 50% + over new purchase  
2. Select the degree of rental usage  
3. Set the degree of rental savings  
3. Full control of all rental operations | 1. Significant student saving of 50% + over new purchase  
2. Select the degree of rental usage  
3. Negligible Initial investment  
4. Minor annual operating costs  
5. No responsibility for logistics and administration  
6. Accelerated implementation  
7. Institution receives commission on rentals |

<table>
<thead>
<tr>
<th>Limitations</th>
<th>Institutional Stand Alone Model</th>
<th>For-Profit Partnership Model</th>
</tr>
</thead>
</table>
| 1. Requires faculty acceptance  
2. Requires extended adoption period commitment  
3. Significant initial Investment – millions of $  
4. Significant annual operating costs  
5. Extensive development/implementation period  
6. Full responsibility for all logistics & administration | 1. Requires faculty acceptance  
2. Requires extended adoption period commitment  
3. The rental savings are set by partner  
4. Limited control of operations |

As shown in the above table, the institutional model and the partnership model offer a trade off with the partnership model offering clear significant benefits in economic at start up time, while the institutional model offer potentially slightly higher student saving and full institutional control.
Key Maryland Policy Considerations for a Textbook Rental Program

There are four overarching textbook rental policy decisions that form the strategic structure upon which a Maryland State textbook rental program could be developed, implemented, and sustained:

- Organizational Structure Decision – Centralized vs. Decentralized Control
- Participation Decision – Mandatory vs. Optional Participation
- Textbook Rental Coverage Decision – Widespread vs. Narrow-focus Textbook Coverage
- Rental Business Model Decision – Institution Stand alone vs. For-Profit Partnership

Textbook Rental Program Organizational Structure Decision
The first policy decision to be determined as a prerequisite to the development of a viable institutional textbook rental program is the organization structure and authority under which it would operate. The alternative organizational structures available range from: (1) a permanent staffed statewide centralized textbook rental organization with centralized authority over all textbook rental programs for Maryland higher education institutions, through (2) a committee based statewide coordinating and advising textbook organization based on institutional autonomy, to (3) an ad hoc committee of interested schools who meet to exchange ideas on best textbook rental practices.

The key factors to be considered in selecting the most ‘satisfying’ organization structure and authority are: (1) textbook rental logistics and supply chain, (2) the potential student savings versus the institution’s incremental cost-investment and annual operating costs, (3) the benefits of economy of scale in purchasing, (4) the degree of standardized textbooks, and (5) the degree of constraint due to limited faculty buy-in.

Textbook Rental Program Participation Decision
The second key policy decision underlying the development of a viable textbook rental program is to determine the degree of participation in the program with emphasis on institution and faculty participation being either required or optional. The alternative participation approaches range from: (1) mandatory participation of all Maryland higher education institutions and all academic programs with some specific justified exceptions, through (2) the voluntary participation of all Maryland higher education institutions, which have administrative and faculty buy-in for selected academic programs, to (3) a completely voluntary program where Maryland higher education institutions and academic programs can buy-in to the textbook rental program as they deem appropriate to best meet their academic and student needs.

The primary factor to be considered in selecting the most ‘satisfying’ participation option is the language of the Maryland Education Code 15-1122 relating to academic freedom and institutional integrity which states: “This section may not be construed to supersede the institution autonomy or academic freedom of faculty members involved in the selection of college textbooks and supplemental material.” Other factors to be considered are (1) the buy-in of administration, (2) the impact of economy of scale in textbook rentals, (2) the potential student savings versus institutional incremental cost-investment and annual operating costs, (3) the degree to which the faculty allow standardization of textbooks and long-term adoptions.

Textbook Rental Program Textbook Coverage Decision
The policies established above with respect to organization, structure, authority, and participation will largely predetermine the degree of textbook rental coverage provided by the program. Subject to the
above constraints, the logical textbook rental coverage policy would focus on achieving the maximum possible coverage within existing constraints to both benefit the student savings and obtain economy of scale benefits in purchasing. Towards this end, coordination of purchasing between participating institutions to obtain maximum purchasing leverage would be desirable.

**Textbook Rental Program Business Model Decision**

The last of the prerequisite policy decisions to be considered in developing a viable Maryland textbook rental program is to select the basic business model: Institution stand-alone or for-profit partnership. The alternative for-profit outsourcing/partnering arrangements could range from (1) a formal direct partnership with a for-profit textbook rental company to handle exclusively all Maryland rental textbooks, through (2) a non-exclusive agreement with a for-profit textbook rental company to handle selected institutions and academic programs, to (3) an informal program where students are referred to one or more for-profit textbook rental companies.

The key factors to be considered in evaluating for-profit outsourcing/partnerships are: (1) the potential student savings versus institutional program cost; (2) the potential savings in initial investment, annual operating costs, and facilities; (3) the ability to not require faculty buy-in; (4) the development and implementation period; and (5) the offsetting loss in bookstore revenue.

**Key Maryland Operational Factors for a Textbook Rental Program**

Once the above policy decisions forming the framework of the textbook rental program have been established, consideration must then be given to the three major operational factors - academic, economic, and administrative.

**Maryland Textbook Rental Program Academic Considerations**

There are two major academic considerations that must be addressed in the consideration of any Maryland textbook rental program – assuring that institutional autonomy and academic freedom are not jeopardized in the development and implementation of any textbook rental program.

- **Institutional Autonomy** – The academic culture of the Maryland higher education institutions is characterized by a high degree of autonomy which leaves each individual institution free to pursue their academic programs and objectives with a minimum of state mandates and control. With respect to textbook affordability, this culture of autonomy is reinforced by the Maryland Statute 15-112 - Sale of College Textbooks; which specifically states that no portion of the statute is intended to restrict institutional autonomy in the selection of course materials. The combination of the culture and the legislation would indicate that any statewide rental program would be of a nature that individual institutions within the Maryland System and MHEC would have the option of entering or not entering into a statewide textbook rental program.

- **Academic Freedom** The academic culture of the Maryland higher education institutions is also characterized by a high degree of academic freedom being allocated to the faculty or, where applicable, the academic program directors which leave the faculty and directors the freedom to pursue their academic programs and objectives with a minimum of institutional or state mandates and control. With respect to textbook affordability, this culture of
academic freedom is reinforced by the Maryland Statute 15-112 - Sale of College Textbooks; which specifically states that no portion of the statute is intended to restrict academic freedom or institutional autonomy in the selection of course materials. The combination of this academic culture and legislation indicates that any textbook rental program requirement that would restrict faculty in the selection of textbooks, such as a multi-year textbook commitment period, would require preapproval of the respective faculty.

**Maryland Textbook Rental Program Economic Consideration**

Four major economic considerations have to be evaluated and integrated to determine the projected economic impact of any Maryland State textbook rental program: (1) the potential student textbook savings, (2) the initial investment (3) the annual operation expense, and (4) the program cost-benefit analysis that balances program student savings against institution costs:

**Student Textbook Savings** - The student textbook savings in a rental program are a function of three variables: (1) the percent saving of a rental textbook over the net cost of a new textbook (purchase price minus buyback price); (2) the volume of textbook titles available under a rental program, and (3) the number of copies of each title available for rent in the program. Under typical textbook rental programs, the rental price is the lowest textbook procurement option, with a price 55% lower than the gross new textbook price.

**Institution Initial Investment** - The initial investment required to implement an internal Maryland textbook rental program can be significant dependent of the business model selected - stand-alone institution or for-profit partnership, and the scale of rental operation - number of titles and copies per title. The initial expenditures include the major investment in textbook inventory, as well as, textbook storage facilitates, staff, systems equipment, and fixtures. Based on the Illinois rental study referenced earlier, the average initial investments for a typical stand-alone public institution and community college are $10 million and $2.5 million, respectively. In the for-profit partnership business model, the initial investments costs are negligible in comparison, as the partner assumes the responsibility for essentially all the installation costs.

**Institution Annual Operating Costs** – The institution annual operating costs consist of the major expenditures involved in the day to day operation of a textbook rental program. Similar to the investment cost above, the annual operating costs can be significant dependent of the business model selected - stand-alone institution or for-profit partnership, and the scale of rental operation - number of titles and copies per title. The major operating costs include textbook replacement, as well as, textbook storage facilitates, operating staff, systems equipment, and fixtures. Based on the Illinois rental study reference earlier, the average annual operating costs for a typical stand-alone public institution and community college are $2.9 million and $0.8 million, respectively. In the for-profit partnership business model, the annual operating costs are negligible in comparison, as the partner assumes the responsibility for essentially all the operating costs. A key factor to consider in the institution stand-alone model is that combination of rental fees and late fees can often be set to generate revenue sufficient to offset the annual operating costs and still achieve the student textbook savings target. Conversely, in the partnership model, essentially all revenue and operating costs reside with the partner, and a negotiated commission fee is provided to the school to offset any incremental costs.
**Funding Sources** - Based on the experience of other states, several sources are potentially available to fund the anticipated heavy initial investment required in any large stand-alone institutional program. However, it must be noted that aside from a few grants and possible private company or individual donor contributions most of the financing requirements will likely have to be provided by the state or the institution. The probability of either the state or the institution committing any large investment funding for rental problems during the current economic condition must be rated as low. That being said, the potential sources of funding include but are not limited to:

- Existing and future Education Department grants
- Philanthropic organizations
- Private companies and individuals
- State administered textbook rental grant programs
- State Appropriations made directly to the colleges and universities with no repayment required
- State provided source of capital for a low cost revolving loan fund

**Cost Benefit Analysis** - After all the decision and parameters have been determined for any proposed textbook rental program, a cost benefit analysis can be conducted to see the anticipated program outcome. This will not be a typical cost-benefit analysis as the cost incurred by the institution or state and the benefit accrues to the student. One conceptual cost-benefit approach would be to first estimate across some reasonable period the incremental out of pocket cost to the institution based on initial investment and net incremental costs (revenues less operating expenses). This net program cost could then be compared against the projected rental program student savings (student savings per title rented times the number of rentals). From this analysis some basic rental program performance metrics could be developed and tracked: (1) total student textbook savings, (2) total rental program costs, and (3) student savings per dollar of rental program expenditure.

**Maryland Textbook Rental Program Administrative Considerations**
The administrative consideration involves an estimate of the amount of time and effort required for the development of the textbook rental program and the establishment of the business processes to sustain the textbook rental operation.

**Development and Implementation Timeline** - The timeline for the development of rental program as might be expected is largely a function of the business model selected and the scope of the rental program undertaking. Normally, for large rental programs, the for-profit partnership model has a significantly shorter program timeline as the partner essentially provides the inventory, warehousing, distribution system, and the order entry/return/collection system. Based on some recent partnership rental programs instituted in that last year, it should be possible to implement a significant sized textbook rental program in six to twelve months, depending on whether or not an RFP is required. Alternatively, a significant sized stand-alone institution rental program could take several years to establish and facilities would have to be obtained; inventory procured and organized; ordering and distribution systems established and tested; staff trained; processes, controls, and reports developed; and computer systems installed. Stand-alone institution programs can and have been established in shorter periods,
however, the scope of the rental programs are very small resulting in limited textbook rental savings.

**Policies and Processes** - Whichever textbook rental program business model is selected, stand-alone institution or for-profit partner, the following institution policies and processes will have to developed or integrated into existing systems. Policies regarding: (1) textbook rental selection, (2) the textbook commitment period, (2) the rental and late return fee structure, (3) inventory ordering, shipping and handling, and storage processes, (4) the rental ordering, paying, and collection process, (4) student textbook delivery and retrieval process, and (5) the establishment of efficient control and reporting system and processes.

**FEASIBILITY REVIEW SUMMARY AND RECOMMENDATIONS**

Based on the above feasibility review results to date, the following represents the MHEC Subcommittee’s summation of the most relevant findings regarding the feasibility of Maryland textbook rental program and a set of initial recommendations to the MHEC Textbook Affordability Committee regarding future Maryland textbook rental program activities.

**Summary of Textbook Rental Feasibility Review**

The key lessons learned to date from the above review regarding potential Maryland textbook rental program can be summarized from three critical perspectives: (1) a textbook rental program's academic and economic viability for Maryland, (2) the alternative textbook business models available to Maryland, and (3) the alternative organizational models available to Maryland.

**Academic and Economic Viability**

The above textbook rental review clearly indicates that under the right conditions significant Maryland textbook rental programs could be implemented that are academically and economically viable, as well as, sustainable. In fact, several Maryland higher education institutions already have active textbook rental programs – though generally of limited scope.

With respect to assuring Maryland academic viability, the key hurdle would be the individual institutions obtaining the commitment of a sufficient number academic faculty to accept and support a rental program. The specific aspect of academic freedom which can preclude this faculty support is the rental program’s requirement for an extending textbook adoption period of approximately four terms, which is needed to recover the initial cost of the rental textbook. This commitment requirement can be satisfied in two ways: (1) individual faculty agree to accept the longer commitment period or (2) in the case of a for-profit partnership, individual faculty either have already adopted, or agree to adopt, textbooks from the partner’s list of rental textbooks. Since in either case, there is no infringement on the faculty’s academic freedom, an academically viable Maryland textbook rental program is achievable.

Assuring economic viability for textbook rental programs of significant size is the more difficult of the two objectives in the current Maryland economic environment. Economically, the benefit of the textbook rental program to students is substantial, with typical rental savings on the order of a 55% reduction from the price of a new textbook. However, the ability to secure real savings is a function of the scope of the program – the number of titles available and the number of copies of each title.
Therefore, for Maryland to obtain real student benefits from a textbook rental program, it is necessary to undertake a rental program of significant scope. The major economic hurdle that an institution must overcome to develop a significant textbook rental program is the initial investment in textbook inventory and related startup cost. Based on the experience of other states, this upfront investment has been estimated to average approximately $10 million for a large university program and $2.5 million for a large community college program. In the absence of any major grants or donations to help defray expenditures of this magnitude, the current Maryland economic environment of program cuts, layoffs, and furloughs precludes any reasonable expectation of such investment. Therefore, a Maryland stand-alone institution textbook rental program of significant scope is not considered economically viable for the foreseeable future.

While the stand-alone institution model is not considered economically viable for significant textbook rental programs, the for-profit/institution partnership is considered economically viable, as the initial investment costs are borne by the partner along with the bulk of the annual operating costs. The economic attractiveness and viability of such programs are evidenced by the growth of large textbook rental firms such as Barnes and Noble and Follett over the last two years. As an illustrative example, the Follett textbook rental programs with partner institutions has expanded from a pilot of 26 programs two years ago to over 720 programs for the upcoming year – including two in Maryland. At the present time, if Maryland desires to pursue academic and economic viable textbook rental programs it has two options: (1) for significant scope textbook rental programs the only viable option is a for-profit/institution partnership and (2) for small scale textbook rental programs the only option is a pay as you go stand-alone institution program.

**Alternative Business Models**

While there are many variations within existing rental business models, the above review reveals there are essentially only two basic business models under which Maryland could engage in significant textbook rental programs: the stand-alone institution rental model and the institution/for-profit rental partnership. For similarly sized rental programs, both models offer essentially the same degree of student textbook savings. The major difference between the two programs is who bears the significant upfront investment and the annual operating costs. In the stand-alone institution model, the investment costs and all operating costs are borne by the institution. However, with respect to the operating costs (based on other’s experience), Maryland could expect that these costs be offset by rental and late fees. In the case of the for-profit/institution model, the upfront investment costs and the vast majority of operating costs are all borne by the partner. In addition, in the partnership model, the partner typical pays a commission to the institution on each rental. The ability for an institution to enter into a for-profit partnership is largely a function of the intended scope of the rental program and the number of rental titles. Examination of the two basic business models clearly indicates that when a partnership arrangement is possible with a suitable for-profit rental company, it would logically be the preferable business model for reasons of economic viability.

**Alternative Organizational Models**

The above review offers a range of statewide organizational structures under which Maryland could engage in significant textbook rental programs. The axial feature in all the alternative structures is the degree of central control desired by Maryland. The primary control tradeoff being a centrally control program provides leverage in getting more textbooks into the rental program resulting in increased student savings, however, a centrally controlled program also adversely impacts on academic and institutional autonomy. Given the prevalent academic culture throughout Maryland higher education institutions, and the specific provisions in the Maryland textbook rental legislation protecting both
academic freedom and institutional autonomy in textbook selection, it appears that the most feasible statewide textbook organization structure would consist of some form of a decentralized structure. The decentralized organization structure would essentially fill coordination and facilitation role with individual buy-in from specific institutions as deemed in their best interest. It is anticipated that any attempt to move beyond this decentralized coordinating structure would encounter resistance along institutional autonomy lines; the more centralized the structure likely the greater autonomy resistance.

**Initial Recommendations to MHEC**

Based on the above feasibility review, and given the demonstrated academic and economic viability of textbook rental programs, the Textbook Rental Subcommittee recommends that the MHEC Textbook Affordability Committee proceed with the continued study, development, and implementation of a statewide Maryland textbook rental program on a coordinated but individual institution based approach along the general lines described below:

At the state or MHEC level, Maryland should establish a formal Coordination/Facilitation Textbook Rental Committee with representatives from all Maryland higher education institutions that desire to participate in textbook rental programs. The purpose of this committee would be to coordinate efforts, exchange information on best practices, and combine purchasing power where possible, as well as, to encourage non-participating institutions to consider textbook rental programs. Individual participating institutions desiring to development textbook rental program, would be encouraged to prepare the necessary studies and project plans required to demonstrate the academic and economically viable textbook rental plans for their individual institution. Where feasible, the committee would encourage and support participating institutions to develop for-profit rental partnerships. These partnerships would allow for significant expansion of the institution’s textbook rental programs generating increased student textbook savings - all of which would be leveraged by the for-profit partner’s assumption of investment costs and operating costs. Where for-profit partnerships are not feasible, the committee would encourage and support participating institutions to develop small stand-alone textbook rental programs, and attempt to defray some of the initial investment cost through grants.

**Justification**

The justification for this recommendation is that it offers an efficient and effective method for Maryland institutions to proceed with a coordinated yet individual institution focused approach to develop and implement Maryland textbook rental programs that will provide significant textbook savings while assuring the essentials of institutional autonomy and faculty academic freedom.