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Global Council

Final Report
Cost Sharing Models Task Force

2011 June 3

Cost Sharing Models Task Force

John F. Helmer, Chair, Global Council Delegate (ARC), and Executive Director, Orbis Cascade Alliance, USA

Global Council Delegates
Lluís Ma. Anglada i de Ferrer, Global Council Delegate (EMEA), and Director del Consorci de Biblioteques Universitàries de Catalunya, Spain
Saad Azzahri, Global Council Alternate Delegate (EMEA), and Library Director, Ministry of Petroleum-Riyadh, Saudi Arabia
Rosann Bazirjian, Global Council Delegate (ARC), and Dean of University Libraries, University of North Carolina Greensboro, USA
Chewleng Beh, Global Council Delegate (Asia Pacific), and Senior Director, Library and Professional Services, National Library Board, Singapore
Jan Ison, Global Council Delegate (ARC), and Executive Director Lincoln Trail Libraries System, USA
Debbie Schachter, Global Council Delegate (ARC), and Director, Technology & Collection Management, Vancouver Public Library, Canada
Anja Smit, Global Council Delegate (EMEA), and University Librarian, Utrecht University, The Netherlands
Kendall Wiggin, Global Council Delegate (ARC), and State Librarian, Connecticut State Library, USA
Jennifer Younger, Liaison to the OCLC GC Executive Committee, and Chair, Board of Directors, Catholic Research Resources Alliance, and Librarian, University of Notre Dame, Hesburgh Libraries, USA

Additional expertise
Edward W. Barry, Vice Chair, OCLC Board of Trustees, President Emeritus, Oxford University Press
Bruce R. Kingma, Associate Provost for Entrepreneurship and Innovation, Syracuse University, USA

OCLC Strategic Leadership Team and regional advisors
Daniel Boivin, Executive Director, OCLC Canada, Latin America and the Caribbean
Cathy De Rosa, Vice President for the Americas and Global VP of Marketing, OCLC
Brian Lavoie, Research Scientist, OCLC
Robin Murray, Vice President, Global Product Management, OCLC
George Needham, Vice President, Global and Regional Councils, OCLC
Rick Schwieterman, Executive Vice President and Chief Financial Officer, OCLC
Arthur Smith, Middle East Support Services Director, OCLC
Andrew Wang, Vice President, OCLC Asia Pacific

OCLC logistical support
Pamela Bailey, Executive Director, OCLC U.S. Service Center
Suzanne P. Lauer, Program Specialist, OCLC Global & Regional Councils

I. Executive Summary

The Final Report of the Cost Sharing Models Task Force includes recommendations that are directly responsive to our charge "to develop and evaluate cost sharing models that advance the public purposes of OCLC, create a sustainable approach to cost-sharing for the cooperative and support the use of differential pricing strategies." The Task Force has made every effort to provide useful advice that is true to the membership while avoiding overly specific recommendations that may appear appropriate today but could quickly become irrelevant as technology, communication, and the roles of libraries evolve. The downside of creating a very flexible general model is that it may not satisfy the expectations of those who would prefer greater specificity and we know we leave much work to be done in the application of the model.

OCLC members have individual needs that shape the extent to which they value their cooperative's various activities, yet collectively, through Global and Regional Council representation, the members agree to support a set of products, services, and activities that are valued by the cooperative as a whole. In short, OCLC members collectively arrive at a shared understanding of what it means to be a member and what set of activities are supported by the fees members pay. Although there is much diversity among members, Global and Regional Council discussion of our work clearly demonstrates that the members of OCLC care about this organization, its roots, current services, and promise for the future.

Recommendation 1: Non-revenue generating programs (p. 9)
OCLC's current non-revenue generating programs are highly valued and should remain core activities funded by all members and provided as a benefit to the broad library, archive, and museum community. OCLC Management should provide a prominent Web-based summary of such programs so that members can easily perceive the broader purpose of the fees they pay. Global Council should periodically review non-revenue generating programs and their associated cost and provide feedback to OCLC Management and the Board of Trustees.

Recommendation 2: Incentives Program (p. 10)
OCLC Management should conduct an analysis of the current system of financial credits for contribution and create an updated Incentives Program. Such an analysis should take into account the original purpose of credits, cost of administering the system, potential for providing incentives for new or different activities, applicability across regions, and provide projections of financial impact on OCLC and members. Global Council should discuss these findings and provide feedback on any potential changes prior to implementation.

Recommendation 3: Fostering a robust marketplace for services (p. 10)
Global Council should enthusiastically endorse efforts to encourage member and third-party development of applications that make use of OCLC's technical platform.

Recommendation 4: Product differentiation. (p. 11)
OCLC should differentiate products to encourage broad or "Web-scale" adoption of services.

Recommendation 5: Differential pricing (p. 11)

OCLC's pricing model should combine a set of factors to create differential pricing that seeks to reflect each member's ability to pay and value derived across or within a region. Components of differential pricing should include:

- Geographic area, such as The World Bank List of Economies or the United Nations Human Development Index
- Exchange rate to reflect currency differences
- Value derived, such as FTE or population served
- Product differentiation
- Consortium pricing, based on the efficiency or value added through a group purchase

In the interest of transparency, OCLC should provide members with easy access to the differential price factors employed at any given time.

Recommendation 6: OCLC should not introduce a membership fee. (p. 12)

Recommendation 7: OCLC should implement Pricing Model A. (p. 14)

Recommendation 8: Create a Global Council Finance Committee (p. 15)

Global Council should create a relatively small (5-7 person) standing Finance Committee that is charged to review OCLC finances in consultation with the Strategic Leadership Team and report back to Global Council at least annually on aspects of OCLC finances that are of interest to the membership.

II. Background

Task Force on Cost Sharing and Pricing Strategy (2010)

A predecessor group, the Task Force on Cost Sharing and Pricing Strategy, delivered recommendations that were discussed by Global Council in April 2010 and adopted in June 2010. The Task Force's final report is available at http://www.oclc.org/councils/documents/cost_sharing.pdf.

Approved by Global Council
- Cost sharing should support the public purposes of OCLC.
- Differential pricing is advantageous to current OCLC members and encourages membership growth.
- Factors influencing differential pricing should include
    - Ability to pay, including regional differences, exchange rates, type of institution
    - Value derived
    - Contribution to the collaborative
    - New markets for OCLC services
- OCLC pricing should be transparent and simple to understand.
- Global Council should clearly identify and periodically review OCLC's public purposes; this information should be maintained on a prominent web page.

As Global Council delegates consider the current report and recommendations, it is important to keep in mind that the Global Council decisions listed above are considered as givens for the present work.

Cost Sharing Models Task Force (2011)

The Cost Sharing Models Task Force (CSMTF) charge can be read in full in Appendix A. In essence, it charges this Task Force to recommend cost-sharing models based on the principles adopted by Global Council in 2010. Over the course of its work, the CSMTF met via webinar on six occasions and in person on March 17 and April 13. Early meetings focused on understanding our charge, terminology, and work done to date, while later meetings were devoted to themes such as *Financial Overview & Discussion of Principles, Strategic Direction, Connecting Principles to Strategic Direction, and Introduction of Cost Sharing Models*. The March 17 in-person Task Force meeting included a Global Council webinar and discussion of several questions posed by the Task Force. Our work during the April 13 in-person Task Force meeting was greatly informed by Global Council's discussion of the Task Force's preliminary conclusions (Appendix B) and presentations that occurred over the previous two days, including:

- *Collaboratively Building Web-scale with Libraries* – Robin Murray, VP Global Product Management
- *OCLC Web Services, Developers Network and the Application Gallery*: Their Contribution to the Cooperative – Kathryn Harnish, Senior Product Manager
- *Cost Sharing Models Task Force Update and Discussion* – John F. Helmer, Executive Director, Orbis Cascade Alliance and Chair of the Cost Sharing Models Task Force
- *Financial Q&A* – Rick Schwieterman, Executive VP and CFO
- *OCLC's Public Purpose and Pro Bono Activities* – Kendall Wiggin, State Librarian, Connecticut State Library
- *Discussion of Cost Sharing Models* (small group breakout session)

Minutes and supporting documents for all Cost Sharing Models Task Force meetings are available on the Global Council site: http://globalcouncil.webjunction.org. Finally, it is important to note that the Americas, EMEA, and Asia Pacific Regional Councils played a key role by sponsoring regional meetings that included member discussion and updates on the CSMTF's work.

Although there are inherent challenges associated with convening both in-person and virtual meetings of 21 individuals across the globe, the Cost Sharing Models Task Force is a very dedicated and effective group that serves as an example of the cost and complexity, but also the great value of working in a global community.

Next steps
2011 June 14: Global Council discussion, revision, and approval of the final report.
2011 June 30: Global Council President submits recommendations to the Board of Trustees and Strategic
        Leadership Team.

III. Terminology

In pursuing their charge, both the Task Force on Cost Sharing and Pricing Strategy (2010) and Cost Sharing Models Task Force (2011) used the following definitions:

Cost sharing is a philosophy or principle in which the costs of an activity are apportioned among participants. In general, it can be contrasted with such concepts as charging "what the market will bear" or "maximizing profit." Total cost may include such factors as administrative overheard, maintenance of infrastructure, and some degree of product development or enhancement.

Price is the specific fee a member pays for the use, subscription, or purchase of a product or service.

Differential pricing is the practice of setting prices that take into account factors that are specific to the purchaser. Typical examples of such factors include value derived, ability to pay, and geographic location. Differential pricing is often an aspect of *market segmentation*, in which products and pricing are created to serve various categories of customers.

Model refers to a simplified representation of a more complex system that, in this case, delineates the major factors influencing price.

Price versus Cost Sharing

Finally, it is worth noting that, although there are times when "cost sharing" may be a more accurate term, Task Force members often found this term to be unfamiliar and an obstacle to communication with members and delegates. For this reason, the report usually uses the more familiar term "price." Although use of this term does not rise to the level of a recommendation, many Global Council members noted the importance of plain-spoken communication and discouraged both the Task Force and OCLC in general from using technically correct language that is hard for the average member to understand.

IV. Expectations and Desired Outcomes

The CSMTF feels that it is important to understand the outcomes desired by OCLC members, delegates, and management. The following summarizes various themes that emerged during our work:

<u>Roles of the Task Force, Global Council, and OCLC Management</u>

Delegates may recall that the roles of Global Council and OCLC Management in this continuing investigation have been outlined as follows:

Principles   ➔   Adopted by GC in June 2010

Models   ➔   Charge of the Cost Sharing Models Task Force

Application   ➔   A role reserved for OCLC Management

As the Task Force's work progresses from *principles* to *models*, the complexity increases rapidly. While we may find ourselves able to agree on abstract principles, agreement on models is harder, and application to a broad range of institutions across the globe would be remarkably difficult. However, it is important to recall that application is the responsibility of OCLC Management. While it is appropriate for Global Council to provide guidance to the Board of Trustees and Management, the Task Force has not attempted to develop a specific list of prices or otherwise work on detailed application of models.

<u>Timing for implementation</u>

OCLC is a complex organization with a large number of existing agreements with members around the world. Thus, while we may wish to see swift implementation of new models, it is more realistic to think in terms of a phase-in period that may require two or three years. Finally, although any new model should apply to both current and new services as well as current and new members, Task Force members feel that it is more important to focus on models best suited to the newest Web-scale services: those services that exhibit strong economies of scale and promise wide applicability with relatively low marginal costs. In other words, pricing models should strongly promote OCLC services that aggregate use across a very large number of participants

<u>Desired Outcomes</u>

CSMTF members discussed the desired impacts of a successful new pricing model. These are among the outcomes suggested by the Task Force:
- A financially sound and sustainable cooperative that has the resources to offer compelling services at affordable prices, support its public purposes, and effectively pursue its strategic initiatives
- Pricing fairness across types of institutions and regions of the world
- Transparent pricing and full disclosure of sources of income
- Pricing that encourages the inclusion of new members
- Value easily understood and appreciated by members
- Members' trust in the goals, accountability and sound financial management of OCLC
- Membership guidance for the Board of Trustees and Management

V. Pricing Model

The CSMTF considered several approaches and settled on a model composed of types of cost and associated differential pricing factors. This section of our report builds toward a model by starting with a classification of costs (V.1.), then identifying of measures used for creating a differential pricing index (V.2.), discussing the potential role of membership fees (V.3.), and finally presenting a pricing model that incorporates the Task Force's recommendations regarding all of these factors: costs, differential pricing, and membership fees (V.4).

V.1. Classification of costs

For the purposes of developing a model, the Task Force classified costs into five types, listed below in *order from smallest to largest.*

Cost 1: Governance

Definition: Costs associated with Global and Regional Councils, Board of Trustees, member meetings, programming, delegate travel, and staff support.

Cost 2: Non-Revenue Generating Programs

Definition: Costs associated with OCLC programs that generate no revenue or, at least, do not generate revenue sufficient to cover their cost.

Discussion
The purpose of OCLC is presented in the organization's Articles of Incorporation:

> *The purpose or purposes for which the Corporation is formed are to establish, maintain and operate a computerized library network and to promote the evolution of library use, of libraries themselves, and of librarianship, and to provide processes and products for the benefit of library users and libraries, including such objectives as increasing availability of library resources to individual library patrons and reducing the rate of rise of library per-unit costs, all for the fundamental public purpose of furthering ease of access to and use of the ever-expanding body of worldwide scientific, literary and educational knowledge and information.*
> – Third Article, OCLC Articles of Incorporation,
> http://www.oclc.org/us/en/councils/documents/amended_articles.htm

In pursuit of this "fundamental public purpose," OCLC offers services and pursues various activities, some of which are expected to generate income in excess of their cost while others are pursued with the full knowledge and expectation that they will not generate revenue or that revenue will not exceed cost. Examples of Non-Revenue Generating Programs include OCLC Research, symposia, fellowships, scholarships, and support for Dublin Core Metadata.

It is important to note that extensive discussion by two task forces and at several Regional and Global Council meetings have conclusively demonstrated strong support for these programs. Feedback from members indicates that many consider OCLC's Non-Revenue Generating Programs to be among the best reasons to support the cooperative. Although this support is remarkably strong, OCLC members also consistently requested more information about the extent of such programs and their associated costs.

Delegates judge that reviewing and providing input on all OCLC programs, whether revenue generating or not, is a fundamental purpose of the Regional and Global Councils.

Recommendation 1: Non-revenue generating programs

OCLC's current non-revenue generating programs are highly valued and should remain core activities funded by all members and provided as a benefit to the broad library, archive, and museum community. OCLC Management should provide a prominent Web-based summary of such programs so that members can easily perceive the broader purpose of the fees they pay. Global Council should periodically review non-revenue generating programs and their associated cost and provide feedback to OCLC Management and the Board of Trustees.

Cost 3: Incentives Program

Definition: Cost of providing financial incentives to members in order to encourage activities that further the goals of the cooperative. Currently such incentives take the form of financial credits provided to members for record contribution, record enhancement, resource sharing loans, etc.

Discussion

Financial credits were instituted in 1985 after a long study by the Users Council (a predecessor of Global Council) and OCLC management. In a letter to members, OCLC management outlined the need to establish a new financial model as the current OCLC pricing structure did not adequately reflect different levels of use of the online system, new technologies or emerging new use patterns across libraries and library groups. One element of the new pricing model was the establishment of financial credits.

Financial credits were intended to provide an economic offset for libraries bearing the unit transaction cost for original cataloging and other contribution activities. Credits were also designed to serve members' interest through a "pricing structure that economically rewards full contribution of information to the shared database." The credit system grew throughout the 1980s and 1990s. Various levels of credits were added to the transaction pricing system and these credits became more specific, multiplying the complexity of explanation and implementation.

Beginning in 2007, OCLC introduced a subscription pricing model to replace the transaction-based structure of the previous three decades. This pricing model change allowed libraries to plan their OCLC costs more effectively and take full advantage of services without worrying about each individual use. While the pricing model moved from a transaction-based model to a subscription model, the use of transaction credits continued and remains in effect today. As of 2011 there are more than 50 types of financial credits administered by OCLC and the total annual cost is $14-20 million.

CSMTF and Global Council discussions suggest that an up-to-date and well-considered OCLC Incentives Program may be a valuable tool but the current system of financial credits is probably out of date. As it stands, the program may be too narrowly defined, the incentives it does provide may no longer be appropriate in light of subscription pricing, and the program appears to be inconsistently applied across the globe. Perhaps different or additional activities should be encouraged? Finally, many have noted that the current system of financial credits is not revenue neutral because there are overhead costs associated with administering the system.

It is important to note that the Task Force found strong reason to recommend further work in this area but did not have time to conduct a full analysis or project the impact on OCLC or members of any potential changes in the current program.

> **Recommendation 2: Incentives Program**
>
> **OCLC Management should conduct an analysis of the current system of financial credits for contribution and create an updated Incentives Program. Such an analysis should take into account the original purpose of credits, cost of administering the system, potential for providing incentives for new or different activities, applicability across regions, and provide projections of financial impact on OCLC and members. Global Council should discuss these findings and provide feedback on any potential changes prior to implementation.**

Cost 4: Applications (Services)

Definition: Cost of design, development, partnerships, marketing and support for products and services.

Discussion
Over the past few years OCLC has done much to create and encourage a developers' platform that provides deep access to the data structure of WorldCat and services based on WorldCat. Such technical access should encourage members and third parties to develop new applications based on WorldCat but may also lead to a change in the sources of OCLC funding. By encouraging a robust market for applications, OCLC may see a decline in funds generated by OCLC applications, a decline that could be offset to a greater or lesser degree by revenue generated from application developers. The Task Force judges that this is a positive direction but also notes that there is a degree of risk in any such fundamental change. Revenue generated by OCLC applications is currently central to the cooperative's financial health and it will be important for pricing models to incorporate these new approaches in a manner that generates revenue sufficient to provide a sustainable future for the cooperative.

> **Recommendation 3: Fostering a robust marketplace for services.**
>
> **Global Council should enthusiastically endorse efforts to encourage member and third-party development of applications that make use of OCLC's technical platform.**

Cost 5: Infrastructure

Definition: Costs for technical, operational, and administrative infrastructure required to support the OCLC technical hardware platform, 24x7 operations centers, data, financial and administrative systems, and product support services.

Discussion
Traditionally, OCLC members have thought in terms of sharing the cost of their cooperative's infrastructure. In its deliberations, Task Force members found ourselves leaving behind the term "cost-sharing," which tends to imply a zero-sum situation in which one participant's gain is matched by another's loss, in favor of "promoting broad adoption," "pricing for Web-scale," or pricing and products aimed at "growing the denominator." To expand on the latter concept, if infrastructure is in the numerator, then increasing the denominator (number of users) drives down the costs for each member.

OCLC is increasingly moving in the direction of services that could exhibit strong economies of scale and low marginal costs (i.e., low cost to add a participant) if very broad use can be achieved. Such broad adoption by members is dependent on OCLC's ability to create compelling products at a low price. A key to creating compelling products and minimizing price is product differentiation: matching product

features to their intended use. When products offer features that are designed to meet the specific needs of members, then

- Members potentially pay lower prices because they are encouraged to purchase what they need but are not required to purchase *more* services than they need, and
- Support costs potentially decline because OCLC is not required to support unneeded features.

In short, to encourage broad adoption and low prices, product features need to reflect the varying needs of OCLC members.

Recommendation 4: Product differentiation.

OCLC should differentiate products to encourage broad or "Web-scale" adoption of services.

V.2. Differential pricing

In June 2010 Global Council approved the use of differential pricing based on both ability to pay (including regional differences, exchange rates, type of institution) and value derived. Since there are no good ways to directly measure such factors, pricing models frequently make use of readily available proxies. Proxies for regional or geographic differences are available from organizations such as the World Bank and the United Nations. These organizations provide indexes that classify world geographies by relative Gross Domestic Product, Gross National Income, Purchasing Power or other economic or human development factors such as education and/or standard of living. Proxies for value derived are often based on expected use of a service or the service itself. For example, in many projects, fees for academic libraries are partially determined by full-time equivalent (FTE) of enrolled students. Thus, FTE is used as a proxy for something more difficult to measure: ability to pay and/or value derived. As noted in the previous section, product differentiation based on need and relative value is another important approach to making services available at an appropriate price. Use of any single proxy would likely not provide sufficient flexibility to meet differential pricing goals, thus the Task Force is recommending a flexible approach that incorporates multiple factors.

Recommendation 5: Differential pricing

OCLC's pricing model should combine a set of factors to create differential pricing that seeks to reflect each member's ability to pay and value derived across or within a region. Components of differential pricing should include:

- **Geographic area, such as The World Bank List of Economies or the United Nations Human Development Index**
- **Exchange rate to reflect currency differences**
- **Value derived, such as FTE or population served**
- **Product differentiation**
- **Consortium pricing, based on the efficiency or value added through a group purchase**

In the interest of transparency, OCLC should provide members with easy access to the differential price factors employed at any given time.

V.3. Membership Fees

The Task Force, Regional, and Global Councils spent considerable time discussing the pros and cons of funding OCLC, at least in part, via membership fees. Discussion included the following

- Are membership fees in use already?
  Yes: membership fees are essentially in place now, but simply included in service fees
  No: many non-members use OCLC services, thus it would be difficult to say that part of their service cost is a membership fee.
- The current membership fee is essentially a requirement to contribute to the cooperative, not a direct financial fee or dues.
- Membership fees would create a barrier to new members who may start with just one service and increase their participation over time.
- Membership fees could be very low, potentially just a redefined component of the first service purchased.
- The benefits of membership must be clearly defined and compelling. Such benefits might include access to selected services that are reserved for members or availability of research reports prior to general distribution.
- The use of a membership fee would encourage the sense of OCLC as a membership organization, especially if such fees were used to fund governance and non-revenue generating programs.
- There are fixed costs associated with having a separate identity as a member institution (e.g., communication and billing costs) and these might be most appropriately funded via a membership fee.
- The introduction of membership fees would add more pressure to the definition of membership, a topic that is already complex.
- Many members participate as part of a group and thus might not directly experience a membership fee.
- Very few library staff would actually see such a fee; just those that review and pay bills. Thus, the impact on a sense of membership would be minimal.
- Such a change might well be seen as a meaningless redefinition of OCLC fees.
- The cost and communication needs associated with implementation could be large.
- Membership may be appropriate in some regions and not in others.

While this proved to be an active and interesting part of our deliberations, on balance the Task Force judges that the negatives outweigh any potential positive aspects of introducing a membership fee.

> **Recommendation 6: OCLC should not introduce a membership fee.**

V.4. Pricing Model

In evaluating different ways to present a pricing model, the Task Force sought to find a format that would be:

- Understandable by the general membership without a great deal of background in OCLC finances or history.
- Useful to management. We sought a model that promised to be a useful guide and could be applied in an effective manner.
- Of lasting value. The Task Force judged that a successful model would need to be flexible enough to adapt to changing circumstances and technology.

For illustrative purposes the following pricing model includes the current OCLC pricing structure and two potential new approaches.

	Current Model	Model A*	Model B*
Membership fee			✔
Funding for:			
Governance			✔
Non-Revenue Generating Programs			✔
Current Financial Credit System	✔		
New Incentives Program**		✔	✔
Applications (Services)	✔	✔	✔
Infrastructure		✔	✔

* In Models A and B, the differential pricing described in V.2. is applied to account for ability to pay, value derived, regional differences, etc.

** Note that details of a new Incentives Program would depend on outcomes of the analysis called for under Recommendation 2 and could include aspects of the current Financial Credit System.

Current Model

Ignoring grants and other lesser sources of revenue, the current OCLC pricing model accumulates shared costs into a single category called "services." In other words, members may perceive that they only pay for the direct costs of "services" but each payment also includes a share of the cost of governance, non-revenue generating programs, financial credits, and infrastructure. As a result, members are generally unaware of these separable costs or their scale. For example, few members are probably aware that infrastructure is the largest area of cost or that member financial credits cost $14-20 million annually (essentially a transfer of funds between members).

As is almost always the case with models, the reality of current OCLC pricing is more complicated than the chart above implies. Current OCLC pricing is influenced by historical variations and adaptations needed to accommodate additional regions and new services. The current model also includes variations and ad hoc approaches such as membership fees for the OCLC Research Library Partnership (essentially a service fee for activities among members of the partnership), increasing use of

subscription pricing in the Americas, wide spread use of the ownership/maintenance model for ILS systems in Europe and Asia, and the use of for-profit distributors in some parts of the world. All of this speaks to the complexity of implementing a new overarching model that works on a global basis and can provide flexibility into the future.

New Models

A wide variety of approaches were considered by the Task Force – ranging from models that provided for funding exclusively through membership fees to models that utilize an "all-in-one" pricing approach for all libraries. The task force also explored models that expanded the pool of funding sources beyond members to include greater support from grant-funding agencies and/or commercial organizations.

Two pricing models emerged that seemed well aligned with both the public purposes of OCLC and the need for practical application on a global basis and in a rapidly changing technological environment.

Model A

Model A is similar to the current model in that it continues to rely on payment for OCLC services, does not seek to separately fund non-revenue generating programs or governance, and does not include a membership fee. Where Model A differs from current practice is that it does not rely solely on service licenses or subscription pricing but also includes funds derived from shared infrastructure and services built by others on the OCLC technical platform. As noted in Recommendations 4, this model also includes product differentiation to encourage very broad use of OCLC services and should allow a decline in prices as infrastructure costs are shared over a larger base. Such an expansion in the sources of OCLC revenue should create increased flexibility and allow adaptation over time.

Model A also calls for replacement of the current financial credit system with a new approach as described in Recommendation 2: "Incentives Program." This program could include incentives for contribution and resource sharing similar to the current system but would ideally be more flexible and include different or alternate credits or entirely new incentives programs. There are many innovative approaches used in other cooperatives (such as rewards and points programs) that could be considered. Clearly, the exact nature of any new Incentives Program would depend on outcomes of the analysis called for under Recommendation 2.

Finally, under Model A, pricing would be influenced by regional differences, exchange rates, ability to pay, value derived, et cetera, as specified in Recommendation 5, "Differential pricing."

Model B

Model B exhibits all of the qualities attributed to Model A but also includes funding via membership fees and explicit pricing to fund non-revenue generating programs and governance.

As with Model A, pricing would be influenced by regional differences, exchange rates, ability to pay, value derived, et cetera, but it is important to note that differential pricing would also be applied to membership fees. For example, membership fees could be waived in certain geographies or vary by size or type of library.

Recommendation 7: OCLC should implement Pricing Model A

VI. Continuing Financial Role for OCLC Global Council

As the CSMTF work progressed through Task Force, Global Council, Americas, Asia Pacific, and EMEA Regional Council meetings; and an interim report discussed at length during the April 2011 Global Council meeting, OCLC members have consistently demonstrated a strong and appropriate interest in the current and future financial basis of OCLC. The scope of this interest exceeds the narrower topics of pricing or cost, and includes a desire to know more about the sources of income and expense, investment in product development, costs of governance, and administrative overhead of their cooperative. This interest stems from a genuine desire to understand the organization, conduct Global and Regional Council governance operations in a more efficient manner, encourage trust through transparency, and provide meaningful, appropriate, and informed advice to the Board and Management.

At the same time, delegates recognize that deep financial understanding is a difficult task that requires time, interest, and some degree of expertise. For example, many hours of work were required before Task Force members felt reasonably comfortable with their knowledge of OCLC finances and even more work was required before we could begin to formulate recommendations. In short, although Global Council delegates express the will and desire to provide input on OCLC finances, it is not practical or efficient to conduct in-depth work as a body of the whole or solely through ad hoc task forces. Global Council needs a recurring committee that can take the time, develop expertise, and report back to Global Council as a whole. At the same time, the CFO's regular reports to Global Council are highly valued by delegates and the work of a Global Council committee should augment but not replace the CFO's report.

Recommendation 8: Create a Global Council Finance Committee

Global Council should create a relatively small (5-7 person) standing Finance Committee that is charged to review OCLC finances in consultation with the Strategic Leadership Team and report back to Global Council at least annually on aspects of OCLC finances that are of interest to the membership.

Cost Sharing Models Task Force Charge

Sponsor: Global Council
Start Date: 2010 November
End Date: 2011 June 1 for submission to the Global Council for consideration at its June meeting

Charge

This charge convenes a Cost Sharing Models Task Force to develop and evaluate cost sharing models that advance the public purpose of OCLC, create a sustainable approach to cost-sharing for the cooperative and support the use of differential pricing strategies. The Task Force will prepare models and recommendations for initial review and discussion by the OCLC Regional Councils and the Global Council and final review and action by the OCLC Global Council. Subsequently, the Global Council will convey its recommendations to the OCLC Strategic Leadership Team and Board of Trustees.

Need for Cost Sharing Task Force

Concerns expressed by both Regional Council members and Global Council delegates on the need to both localize and globalize access to OCLC services resulted in the establishment of an OCLC Global Council Task Force on Cost Sharing and Pricing Strategy (September 2009) "to study and make recommendations about OCLC cost sharing and differential pricing to further strengthen OCLC products and services for libraries and cultural institutions and their users worldwide." The Task Force's Final Report was accepted and its four recommendations approved by the Global Council at its virtual meeting on 2010 June 21. Recommendation 1 identified principles of cost sharing which will be a critical component in the work of this new Task Force. The Global Council will undertake new initiatives on Recommendation 2 (Public purposes and pro bono activities) with work as well by this new Task Force. Similarly, the Global Council will act on Recommendation 3 (member engagement) and has implemented Recommendation 4 (form a new Cost Sharing Task Force) with the establishment of this Cost Sharing Task Force.

The Task Force will take the next step in acting on Recommendation 1, which is to consider the principles of cost sharing in the development and evaluation of cost sharing models. The principles of cost sharing affirm that cost sharing and pricing support the public purposes of OCLC and that differential pricing is advantageous to OCLC members. The third principle identifies multiple factors that influence differential pricing. It is anticipated that the development of cost sharing models will employ these factors, including but not limited to the factors adopted by Global Council in June 2010:

- Ability to pay
- Value derived
- Contribution to the collaborative
- New markets for OCLC services
- Transparency and simplicity
- Predictability

In addition, the Task Force will consider how *pro bono* services could be factored into the cost-sharing model.

To the extent practical this group will represent the diverse OCLC membership with a majority of members drawn from the OCLC Global Council. The OCLC Strategic Leadership team as well as the Board of Trustees will also be represented. Additionally, as has proved useful in the work of other OCLC groups, the Task Force will draw on other experts as appropriate both from within and outside of the OCLC community. Further, the Global Council requests that the Task Force engage at key junctures with the membership through the Regional and Global Councils in soliciting input on the cost share models under development. Review and action by the Global Council should follow discussion and consensus-building within the established OCLC governance structure. Upon completion of its review of the recommended cost share models from the Task Force, the Global Council will submit its recommendations to the OCLC Strategic Leadership Team and the Board of Trustees.

Meetings

> **2010 November – 2011 May**: The Task Force is expected to meet periodically via conference call or webinar, with one in-person meeting in mid-March, potentially in conjunction with a webinar update for Global Council.

Updates and Reports

> **2011 January through early March**: Provide updates on charge, process, and work to date to Regional Councils, the Board of Trustees, and the Strategic Leadership Team.

> **2011 mid-March**: Provide webinar update for Global Council on charge, process, and work to date.

> **2011 April 1**: Submit a draft report and recommendations to Global Council for discussion and feedback at Global Council April 14-18 meeting in Dublin, Ohio.

> **2011 June 1**: Submit a final report and recommendations to Global Council for review and/or approval at a Global Council virtual meeting in June 2011.

> **2011 June 30: GC President will submit recommendations (or a status report in the absence of approved recommendations) to the Board of Trustees and Strategic Leadership Team.**

CSMTF Preliminary Conclusions Presented to Global Council in April 2011

Cost of Public Purposes

➔ OCLC's non-revenue generating public purpose programs should remain core activities funded by all members and provided as a public benefit to the broad library, archive, and museum community without regard to membership in OCLC.

➔ OCLC's non-revenue generating public purpose programs and their associated cost should be reviewed by Global Council, with feedback and recommendations forwarded to the Board of Trustees and Management. The CSMTF proposes to provide an initial review and recommendation in its final report.

Cost of Financial Credits for Contribution

➔ OCLC's policies concerning financial credits for contribution should be examined in light of their originally intended purpose and current impact. As part of this investigation, consideration should be given to administrative costs and the potential use of financial credits as a tool for encouraging additional types of contribution.

Cost of Applications (Services)

➔ The CSMTF recommends that Global Council enthusiastically endorse efforts to encourage member and third party development of applications that make use of OCLC's technical platform. Although this approach might cause a decline in the revenue derived from OCLC services, it should encourage broader use of OCLC's platform, generate new sources of revenue from application developers, and foster a competitive marketplace for services.

Cost of Shared Infrastructure and the promise of "Web-scale" services

➔ The CSMTF encourages OCLC management to use the term "price" instead of "cost-share" and, more importantly, to set prices at a level intended to promote Web-scale services and encourage membership growth. For example, the "Library in a Box" (or "Library in the Cloud") concept might be realized by developing a very inexpensive version of WMS that offers minimal but compelling functionality for school and small rural libraries around the world.

Membership fees

➔ Although CSMTF sees both advantages and drawbacks to membership fees, the Task Force does not recommend the implementation of an OCLC membership fee.

Measures used for Differential Cost Sharing

➔ A differential cost-share model should utilize a blended set of factors to create a cost-share index that is broadly applied and generally reflects each member's ability to pay and value derived across or within a region. Anticipated elements of an index include:

- A geographic index component, such as The World Bank List of Economies
- An exchange-rate index component to reflect currency differences
- A value-derived index component, such as type of institution and FTE or population served
- A service features used/needed component to reflect functionality differences