Funding OCLC: Interim Report of the Cost Sharing Models Task Force

OCLC Global Council
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Overview

Previous work ...

*Roles of Global Council, Board, & Management*

*What has already been decided?*

New ...

*Related agenda items: finance, public purposes, strategic direction*

*Categories of cost*

*Current OCLC funding model*
Overview

Six preliminary conclusions

- Cost of Public Purposes
- Cost of Financial Credits for Contribution
- Cost of Applications (Services)
- Cost of Shared Infrastructure
- Membership Fees
- Measures Used for Differential Cost Sharing
Previous Work

**Roles of the Global Council, Board, & Management**

- **Principles** ➔ Adopted by Global Council in June 2010
- **Models** ➔ Charge of the Cost Sharing Models TF *
  Final report to Global Council in June 2011
- **Application** ➔ A role reserved for OCLC Management

* “...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.”
Previous Work

What has already been decided?

- Cost sharing should support the public purposes of OCLC
- Global Council should clearly identify and periodically review OCLC’s public purposes
- Differential pricing is advantageous to current OCLC members and encourages membership growth
- Factors influencing differential pricing
  - Ability to pay (incl. 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
Related Global Council Agenda Items

Robin Murray

*Collaboratively Building Web-scale*

Rick Schwieterman

*Financial Q&A*

Kendall Wiggin

*OCLC’s Public Purposes*
Categories of Cost
*from smallest to largest*

1. Governance
2. Public Purposes
3. Financial Credits for Contribution
4. Applications (Services)
5. Shared Infrastructure
## Current OCLC Funding Model

<table>
<thead>
<tr>
<th>Membership fee?</th>
<th>Yes!</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee to finance</td>
<td></td>
</tr>
<tr>
<td>1. Governance?</td>
<td>No</td>
</tr>
<tr>
<td>2. Public Purposes?</td>
<td>No</td>
</tr>
<tr>
<td>3. Financial Credits?</td>
<td>No</td>
</tr>
<tr>
<td>4. Applications (Services)?</td>
<td>Yes!</td>
</tr>
<tr>
<td>5. Shared Infrastructure?</td>
<td>No</td>
</tr>
</tbody>
</table>

Costs are accumulated in a single category called “services.” Members are generally unaware of these separable costs or their scale. Examples: infrastructure is the highest cost area, member credits cost $14-17 million annually.
Current OCLC Funding Model

Complications!

- RLG Partnership includes a membership fee
- Subscription pricing in the Americas
- Widespread use of the ownership/maintenance model for ILS systems in Europe and Asia
- For-profit distributors in some parts of the world
- Etc.
Six Preliminary Conclusions: Are We on Track?

1. Cost of Public Purposes
2. Cost of Financial Credits for Contribution
3. Cost of Applications (Services)
4. Cost of Shared Infrastructure
5. Membership Fees
6. Measures used for Differential Cost Sharing

Quick review of each
Loop back to discuss
Later ... breakout sessions
1. 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.

- 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)
2. Cost of Financial Credits for Contribution

1985: Introduced to provide an economic offset for libraries bearing the transaction cost for original cataloging and other contribution activities ...

“pricing structure that economically rewards full contribution of information to the shared database.”

1980s and 1990s: Various levels of credits were added to the transaction pricing system.

2007: Subscription pricing model introduced to replace the transaction-based model but transaction credits continued.
2. 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.
3. 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.
4. Cost of Shared Infrastructure

“Web-scale” implies economies of scale and low marginal costs.

“Cost-sharing” tends to imply a “zero sum” situation in which one participant’s gain is matched by another’s loss.

A better approach might be to think in terms of a “price to promote Web-scale” rather than “shared costs among members.”
4. Cost of Shared Infrastructure

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.

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.
5. Membership Fees

- Encourage the sense of OCLC as a membership organization?
- Would require the specification of those benefits members receive that nonmembers do not
- Could cover the cost of governance or public purposes
- Could fund the fixed costs associated with having a separate identity as a member
- A barrier to new members?
- What about members that participate as part of a group?
- Very few library staff would actually see such a fee
- A meaningless redefinition of OCLC fees?
- Membership may be appropriate in some regions and not in others
5. 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.
6. Measures Used for Differential Cost Sharing

A model should utilize a blended set of factors to create an 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 component, such as The World Bank List of Economies
- An exchange rate component to reflect currency differences
- A value-derived component, such as type of institution and FTE or population served
- A service features used/needed component to reflect functionality differences.
Six Preliminary Conclusions

1. Cost of Public Purposes
2. Cost of Financial Credits for Contribution
3. Cost of Applications (Services)
4. Cost of Shared Infrastructure
5. Membership Fees
6. Measures Used for Differential Cost Sharing

Is the Task Force on track?
What do you think of our preliminary conclusions?
What else should we consider?