



For podcast release Monday, July 26, 2010

Interactive Textbooks: Poised For Success?

An emerging a new generation of interactive textbooks stands to change fundamentally the way students, instructors and authors use, share and create academic texts. Advanced digital tools make possible the convenience of online and downloadable access options, and can mean a much lower-priced textbook. At last month’s [annual conference](#) of the Text & Academic Authors Association (TAA), **Clancy Marshall of [Dynamic Books](#) and Jeff Shelstad of [Flat World Knowledge](#)** detailed the opportunities and advantages for authors particularly.

With special thanks to



SHELSTAD: First off, welcome to my home state. I’m a Minnesotan, so grew up about 50 miles south of here. And I went to school at the university, and then started actually in this industry in 1987 when I graduated from the university.

And so my name’s Jeff Shelstad. I’m the founder and CEO of Flat World Knowledge, and we are a new startup publishing company, which I think you’ll hopefully enjoy hearing about.

And then I’m going to talk for about 10 minutes or so, just give you an overview of how I see the industry, why I left Pearson to start this with my colleague, Eric Frank, what our model does differently – very differently than the industry model, kind of how we’re doing today, and then I see – how I see the ecosystem breakout and a little bit about our technology plans.

And then I’ll turn it over to Clancy Marshal, who’s here and is – I’ll let her introduce herself when she gets up. And then she’ll go through the same thing, 10 minutes of what she’s doing with Dynamic Books, and then we’ll kind of open it up to all of you for Q&A, because we’re – hopefully you have a lot of questions.

So how do we see the problem or the opportunity in the industry?



So fundamentally, what we think's going on here is you got a consumer, an end-consumer student who really is seeing a big value gap in the industry.

So here's our student today. He's more mobile, more wired, more connected than ever, but also busier than ever and actually poorer than ever. So the growth in enrollments in higher-ed, not just the U.S. but around the world, are generally at the bottom of the economic pyramid. Huge growth in enrollments in community colleges generally over the last 10-plus years.

So there's Bert, our college student. Typically, Bert's getting a textbook that's increasingly expensive. I've got some market-leading ones up there. They're starting to cross the \$200 threshold. New. And Bert's not real happy about that.

And as I said earlier, the pain's not really evenly distributed. So Bert, if he's at a community college, he's paying upwards of 70% of the cost of his tuition and fees are also spent on the cost of textbooks. And so if he's at a public four-year university, it's around a quarter. If he's at Yale, it's not as big a deal.

So what does Bert do? Well, about 10 years ago – or more than that, when the Internet popped up, Bert became pretty savvy and he figured out how to beat the system.

First off, the used book market, which used to be a cottage industry when I was selling books, is now highly, highly efficient, and every used book finds a home as quick as it can, and the Internet's really enabled that to happen.

You got the global re-importation problem, where the books that we would produce at the big houses, we would overprint them and sell them to or sister companies in Malaysia for \$10, and lots of them would start reappearing back in more highly priced markets – exact same books.

You've got the rentals, which is a recent phenomenon. Actually, it's not that recent. If you're from this area, the Wisconsin system has had the rental program for forever. But now it's nationalized, or internationalized, with Chegg and BookRenter and others – and well-funded, by the way.

And then you've got the peer-to-peer reality, right? Students exchanging books both legally, and in some cases illegally. So if you go to BitTorrent and Google virtually any market leading book and put the word PDF after it, you'll find lots of available downloads of PDFs of the market-leading textbooks.



All of that makes the publisher's job really hard, which is to monetize the relationship with students. Right? So what do they do?

Well, they do some really innovative things, no question about it. But they also do some highly defensive things and probably the reason why I started Flat World. First, price increases are out of control. Right?

So last year, Pearson, the largest publisher in the industry, 13.9% price increase. In this economy, probably not appropriate. But the students who do buy books have to subsidize the ones who don't buy new books.

You got the bundling game. Right? You got to introduce tons of ISBNs, so students are confused. They Google an ISBN, they can't find it, they assume they have to buy it in the local bookstore. Good and bad for the industry.

And you've got the rapid revisions. All of you are authors, or most of you are authors, really aggressive revision cycles now. Some of it very legitimate, lots of it just to flush out all the stuff that's on the left and give the publishers a big bump in one-time sales.

So Bert's really frustrated, and so is everybody is. Basically, I looked at my colleague Eric Frank in late-2006 and said, does anybody like us anymore? And we concluded no. And so we said, there's got to be a better way to serve this industry, serve all the key customers. And we think there's a much better way to do it. And so does BNET. They like us. We've got a lot of good press.

So what do we do? Well, we do some things really similarly to the industry. Right? So we think authors are at the helm of the industry. We think all of the value creation in the industry starts with a world-class author and drives through their ideas. I've thought that forever. I've been an editor since 1991. I think world-class authors are the whole value creation in the industry. Then we change. (laughter)

So we don't think the industry is wrong the way they produce books. As a matter of fact, the books we compete with in all the core markets we're in, they're really, really good books. Really good books. You can argue about their value relative to their price, but the – at the end of the day, the books plus the ancillaries are really well-done generally by the publishers.

So we're not trying to change that. We're actually going out and getting those same authors, about 55% of our authors have written with one of the major houses,



and we're getting them to do their next textbook with Flat World. And I'll walk you through how we're able to do that.

But once we get that world-class author, we help him or her write a great book. So we do all the peer reviewing, all the stuff I've done since 1991. So do all the peer reviewing, all the product management, all the development, all the design, all the illustrations, all the art, all the copyediting, all the production. We're going to produce a great textbook and related ancillaries at the end of the day, because we think the industry does that. But then when we publish it, we flip the model on its head.

So the first thing we do is we publish an openly licensed textbook. So both in the platform that we've built and the license that we've applied to our content, the faculty member – the educator – has complete control of our content. All right? So we use a Creative Commons license. It's a little stronger license, because we need to protect our authors and our business. But basically, we are transferring the right to the educator to take our content and do whatever, in essence, they'd like to do with that content to better fit their course.

And then, of course, our core deliverable is a free online book. So after an educator has done what they might have wanted to do with our book, and say they're done, and they're going to publish it – save and publish it – the first deliverable is a free web-hosted book. We host it. It's free. No games. It's a free book, fully online.

So we think those two things – great books, great authors openly licensed and free – drive a ton of adoptions with faculty. But we haven't made any money yet. How do we make money?

So Eric and I fundamentally believed when we left the industry that students were just consumers, and if you treat them fairly, they'll consume. Not all of them, and they don't all consume today. But if you treat them fairly, lots of them will consume.

So we give them more choices than they'll ever get from anybody else. First is we give them print books. All right? So lots of students really like print books, but they don't like about \$200. So we have a digital hub of seven printers around North America. If I get an order – actually, one of my printers is here, in Chanhassen, so if I get an order from the University of Minnesota, the book is printed that afternoon at Chanhassen and mailed to the student. If it's – if the order's from the University of North Florida, it's printed in my Memphis facility and mailed to the student that day.



So the student can choose a black-and-white book for \$29.95 plus shipping, or a full color book for \$59.95 plus shipping. About 95% of students take the black-and-white book, when they buy a print book. They can also buy print it yourself, which I then download to them – but socially protected, it’s got their name on it. Socially-protected PDF for a \$1.99 a chapter or \$24.95 a book, and then they can print to their heart’s content.

I also sell all those other formats. I sell audiobooks by the chapter and by the book. I sell – in July, I’m releasing a EPUB and .Mobi. EPUB does all of the handhelds, notably the iPad, but also the enTourage eDGe, the Sony NOOK, the Barnes – or Barnes & Noble NOOK, the Sony Reader. And the .Mobi files, of course, do the Amazon Kindle, or the Kindle DX. And then iPhone will be coming later on this fall.

So the student has, in essence, one, two, three, four, five, six, seven – seven or eight formats to choose from, all at the – or they can consume it for free.

I also give them study aids. So those enterprising students who want to do well, they can purchase study aids right before the midterm to help them do well. Those are things like audio study guides, quizzes, flashcards, etc.

So again, the – at the end of the day, what this is, is world-class textbooks, 100% control of content transferred to the educator, and 100% control of consumption transferred to the student.

So now I think I’ve made everybody happy, or at least that’s my bet, that everybody’s happier. Bert gets access, affordability, and choice – things that he might not be getting enough of from the industry today. He also gets desegregation. He can buy by the chapter or buy the book, and hopefully he gets something that matches his learning style a little better. If he’s a mobile guy, he’s got an audiobook. If he’s a print guy, he’s got a print book. Whatever.

The faculty gets complete control of control while they start with a great book. So I’m putting the discipline and the rigor of book development into the open education space. I’m betting that I can produce great books that, licensed openly, will drive a lot of usage. He also – professor also gets really easy integration into his LMSs if they want that. Right?

So openly licensed book, it’s pretty easy to embed a Flash object of our entire book right into your LMS. We can maintain the eCommerce transactions, so we’re happy to get our books wherever they need to be to make learning most efficient.



I may not make the publishers happy, but we'll see. Game's got to be played. But I think with this model, I get rapid share gain, really sticky customers. I've certainly reduced the costs in the industry, taken a lot of cost out of the industry overall.

I've started with a product that I think most customers could be very comfortable with. It's called a textbook, and I think a majority of faculty can be really comfortable starting with a textbook.

And then, of course, authors – I believe authors should make a lot of money. And so my bet is, is that even with the presence of a free book, my authors will win.

And so Chris Anderson, in his book, *Free: The Future of a Radical Price*, actually profiled Flat World and showed that over four or five semesters that Flat World authors come out ahead. That's our argument with authors. It hasn't been played out yet because I'm only in the second semester of sales. But I can tell you that I have really happy authors, and Steve can maybe even vouch for it.

So we agree, rapid share gain with our authors. We think one of the really cool things is we get behavioral data, right? So I'm capturing every change that a faculty member has made. I don't have to go back and ask faculty members what they think about the book. I actually see it. They all eliminated chapter four. They – I can just see the data right in front of me. Get to be a good guy again, and hopefully it's the future of this industry.

So how am I doing? Got 20 titles published. They're all in the business and economics field right now. So we started in the business school. So I have 20 titles published. I have 40 more coming in the next couple of years. About 100 authors under contract. I said more than 50% have published successfully with Pearson or McGraw or Cengage and have chosen to do their next book with us. It's actually a lot of fun to try to sign products with this model.

We brought our first book out in the spring of '09. We had 10 books in the spring of '09. We were in 480 classrooms in the fall of '09 with about 23,000 students. We had another about 23,000 students in the spring '10. This fall we're going to be in front of about 1,200 and we're getting 1,200 classrooms and close to 100,000 students.

So we're getting a lot of traction with faculty. Faculty like what we're doing. They like the product. And, of course, they're getting generally very good feedback from students.



Beyond the Book[®]



We've got a low cost of sales. The model is really strong and it carries us a long ways. We get a lot of peer reviewing – or a lot of peer referrals. Obviously, a happy faculty member at school X is likely to speak up, and that helps us get two or three more faculty members at that school.

How are we doing on conversions? So is anybody making money? We have 50% of students convert from free to pay. And I will say we haven't spent much money on this side of the business yet at all, because without great textbooks, and without a platform and all – and faculty adopting them, we really don't have a business. So we kind of concentrate most of our early spend on getting the books, getting the platform, and getting the faculty to adopt. And now we're kind of slowly moving towards conversion. But 50% convert.

Far and away, the most popular product is the black-and-white print book, which is \$29.95. And when students purchase, about 72% of them buy a print product, either the black-and-white book, the color book, or the print it yourself. It's very popular. Students very much like print.

We've got new agreements in place with Barnes & Noble, Follets, and Knack. So all the bookstores are somewhat embracing us – some way more than others. The innovative guys in the space really like what we're doing. We actually have a number of bookstores this spring who are printing books – or this fall who are printing books for us. So we're printing locally. So lots of neat things going on with bookstores.

There's also this for-profit career channel where we've got a lot of traction in. We've got a big five-book co-development deal with one of the major players and lots of other adoptions. About a third our revenue is coming out of this space right now.

Here's the president of Cerritos College, which is a big urban community college outside LA. 24,000 students. I was just on her campus this spring. She wrote an article in Community College Weekly saying, Flat World is increasing my retention. So she has half of her students are online, the other half come to campus. And she is saying, basically, the access issue is helping her retain students.

Students – no – there's no complaining anymore. There's not – I can't afford the book. I didn't get it from Amazon. I – I'm still waiting. As soon as the course starts, or soon as the faculty member adopts, the book is immediately available. So all the distance learning students, they only come on campus the third week to pick



up their book. In Flat World's case, they've all got access to the electronic book and some have already purchased.

So I want to be very clear. There's a lot going on in this space. It's really noisy. Lots of capital pouring into it. We've been successful raising capital ourselves.

But we're a very unique play. We are really Publisher 2.0. We are completely agnostic about where the book is purchased. Obviously we're direct-to-student, so it's great if they purchase off the Flat World site, but we're playing with a lot of other people that will have our books also.

We are going hard after the oligopoly. We are fighting for faculty mindshare in both authors and adoptions, and the only people that really do that are the publishers. So we're going right after their bread and butter, in essence. All of the dollars in our mind flow through the faculty.

Our books will be – this fall will be on all those things in orange, with the exception of CourseSmart. I don't think we'll be there. Chegg – I don't think Chegg's going to buy our books. Our price points are too low and they don't like our customization.

Here's just a VentureBeat which says, Chegg's got a lot of money but Flat World's a better play. That's what we hope. We hope they're right.

Give you a quick visibility into our platform. So right now, on the faculty – the power you have as a faculty member is what I would call up, down, and delete, and annotate.

So you can come into our catalogue. If you like one of our books, make a copy – a derivative copy of it, and then you can move any content around however you want to move it around, and you can insert annotations after every paragraph, every figure, every illustration, whatever.

That's your power today. I'll show you the next release in a couple seconds. But basically, once you do that, I can generate for you all those versions in a second. Right? So they all flow right into my Reader. All the commerce kicks up. The students immediately able to purchase your customized book, and you're off and running.

In the fall, December 1st, what I'm going to release is – the big enhancement I'm going to release for faculty member is the ability to insert their own documents. So if you got a cool chapter on search engine optimization sitting on your hard



drive and you want to put it in my marketing book, go ahead and do it. It'll come into the book and be available to your students in all the formats.

The other thing I'm doing is allowing you to edit right down to the sentence level, as of 12/1. So an – a faculty member can come and make a derivative copy of my book and edit – eliminate examples they don't like, do whatever they want. Complete control of content.

Hey, I really want to be Publisher 2.0, right? I want – what I want ultimately is everybody to feel like they can be an author. So whether you make it through our kind of gate of saying you can be a world-class author and write a great book for us, or whether you do a derivative of one of our great books, or eventually, I'm going to open up the platform and let the whole world author.

It might be under another brand, but since the tools are there, I'm going to let everybody come in and author, set your price, probably set your own royalties, set your own take, set formats – give you, the authoring community, complete control of how you want to interact with your students.

Again, probably under a different brand. Probably more like a Long Tail Press versus Flat World which is really a premium publisher against the big guys. But that's ultimately where we're going in the next two to four years. And with that, I will turn it over to Clancy.

MARSHALL: Great.

AUDIENCE: (applause)

MARSHALL: OK, so I'm Clancy Marshall. I'm general manager for Dynamic Books.

And I guess – if you don't mind, this is actually – this is the first time that I've come to this conference. So I'm just curious, are the majority of you textbook authors with major publishers right now or you're introduced in becoming textbook authors? So can I just like see a show of hands? How many are textbook authors with traditional publishers right now? OK. And how many are interested in becoming textbook publishers? OK. So it's –

M: (inaudible).

MARSHALL: – so it's about half and half. OK, great. Thanks.



Beyond the Book[®]



So let me tell you a little bit about what we are doing with Dynamic Books. To give you a little bit about my background, I've been in traditional textbook publishing for the last 15 years, signing authors and we – I've launched some very successful first editions, second editions. And I loved working with the major publishers to bring out very successful textbooks.

But what I started to find as – and as Jeff mentioned this – is that the biggest challenge that I think that the publishers face, and those of you who are with traditional publishers right now have probably seen it, is this drive to sell new books. And the way to do that is to revise your book every three years or every four years, whether or not you necessarily want to do that.

And so I talked with my authors, when I was working for the traditional publishing company, and I said, are you – do you really – do you want to bring these books out every three years? Do you think it's necessary to completely rewrite the book every three years? And to be honest, a lot of them said, I think they're pretty good the way they are. (laughter) There are a couple things I want to change, but I don't want to revise the whole book.

So what we started thinking about was, how can we create a model that is better for students, better for instructors, and really better for authors? And we came up with Dynamic Books.

So what Dynamic Books is, is it's an online platform that enables instructors to go in and completely customize any existing textbook. And Dynamic Books is open to all major publishers. It's open to authors who want to create their own materials and it's open to open source organizations.

And so once an instructor adopts your book, if it's part of the Dynamic Books platform, that instructor then has the freedom to go in and completely customize it.

So they can edit what you've written. They can upload audio. They can upload video. They can upload images. And they can really try to make that book very pertinent for their students.

So instead of taking – instead of a book, give the students purchasing the traditional book that was written by someone who hasn't come into their class, they're now seeing a book that has their instructor's comments, their instructor's videos, their instructor's audio embedded.



And for you, what this means is that you have now created a living textbook. You're going to continue to generate royalties – the same royalties that you were generating before, except you don't actually have to revise these books.

What you can do instead is maintain contact with the community of instructors who are modifying your books and help them and make some suggestions about what they might want to include.

So that's a basic overview. Let me show you a little bit more about how this works. I have a video just to – let me just kind of see if I can get this to play for you guys.

I just thought this was kind of cool. We interviewed students, and authors, and teachers to ask them what they thought about Dynamic Books. And let me play this. Let me see. If you can't hear it –

(video plays)

You know what? I'm not going to agonize over this because it's – because the sound isn't great.

If you guys are interested, I will – I can show you this video afterwards. It's actually cool because we talked with students, and instructors, and also some of our existing authors who are writing Dynamic Book versions of their texts just to see what they thought about this idea, and they liked it.

So if some of you want to come up afterwards, I'd be happy to show you the video. OK, now I'm going to try to clip this back on here. OK.

So when I mentioned before that what Dynamic Books is, is it takes an existing textbook and it enables an instructor to go in and edit it, this is what it looks like.

So it's really easy to do. It's – if you're comfortable using any word processing program – I mean, if you're comfortable working in Word – you can very easily go in to your textbook and rewrite a section.

You could also – there are some creative ways that you could do this. You could – if students have questions in class, if there's something that's covered differently in the textbook, you could actually just delete that paragraph and say, as we covered in class, see these notes, and you could upload your notes if you wanted.



You could even say, as student X pointed out in class, this is a better way to explain it. And so I'm going to put this in the book so that you guys have something that we talked about in class to go in and study with.

And it's interesting, because when we talked with students about the reasons that they aren't purchasing textbooks today, there are two main reasons. We all probably know the first reason, which is that they think books are too – textbooks are too expensive.

But the big second reason for students that they don't want to purchase textbooks is that they feel like they aren't relevant to their class. They feel like the textbook isn't – they don't need it to get through the class.

So really, what we have to do is give instructors the power to make the textbooks that we're creating really relevant for the students. So this – so we've tried to make this very easy for them. It's very easy to use. And then this is what the student's experience looks like.

So the instructor goes in, you'll modify, you'll make changes, and then the student will go in and they have a downloadable book. They have access to an online book. They can highlight. They can take notes.

But what I wanted to point out here is that here, these marks that I've made here where it says instructor edits, anything that an instructor has changes from the original text will be highlighted in blue like this.

So as an example here, an instructor went in. They were talking about operant behavior. And they said, OK, here, I've uploaded a modern video about a Skinner box and what that might mean. So it's actually a picture of his kid in a – one of these –

M: (inaudible).

MARSHALL: It's – well, it's – (laughter)

M: (inaudible).

MARSHALL: (laughter) Yeah, right. I know. It's been a long time. But – so they've – shockingly, Fisher Price has built these little things where babies have to tap their foot on it. And every time they tap their foot, they get a – make a sound, which is really the exact same thing as what the – they taught the mice to do.



Anyway, so this instructor uploaded that, but it's clearly highlighted so you know that wasn't something that you, as an author, had written.

And then at the top of every page that has been edited, it will say *Psychology* by Dan Schacter, as edited by instructor X. So it's very clear what was your original material and what was modified by an instructor.

In addition, students can go in and take notes, and highlight, and search by key terms. They have a lot of great functionality.

They can also – with Dynamic Books, they can print sections out, page by page. So for one price, they get it online, downloadable which they can keep after class, and then they can print sections of the book – up to 10 pages at a time. If they want a printed bound version that includes all of their instructor's edits, they can also – they order that in black-and-white or color. And that's from any online retailer. Their instructor will give them the ISBN.

So we have a punch of pilot titles. We – Dynamic Books is owned – our parent company is Macmillan. Macmillan owns a number of trade publishers. Their college imprint is Bedford Freeman and Worth, which some of you may have heard of.

But I was very clear when I started working with Macmillan that if we were going to have Dynamic Books be successful, that we needed to work with every major publisher. So we're talking with everybody right now.

So we do have an initial list of pilot titles from major publishers, but we continue to add to that.

And one of the things that we're also interested in doing is starting to work with authors directly, authors who don't necessarily want to work with a traditional publisher, who want to come to us and provide files, put them into the Dynamic Books platform, and then edit their books as if they – as an instructor would. So again, I can talk more about that later, too.

I just wanted to pull this up – DyanmicBooks.com. There's a lot of information there. You guys can visit the site. It talks about advantages for students, for instructors, and, of course, for authors. It's a way for you to find out exactly how the program works. And that's really it.



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