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INTRODUCTION

Using the strategies outlined in Clayton Christensen's book, "Seeing What's Next", it is possible to identify many industries currently faced with disruptive innovation. One industry experiencing a wave of disruptive innovation is school textbooks. For the purposes of this paper, the textbook market is assumed to include K-12 students, as well as college students. The textbook industry is a large and multifaceted market. Here, I will examine disruptive innovation within both the retail and publisher segments of the textbook market.

RETAIL DISRUPTION

Traditional Textbook Retail

The first segment of the textbook market I will discuss is retail sales. Traditionally, most textbooks sold to students or parents have been purchased at brick and mortar stores. In particular, local bookstores and campus bookstores have historically controlled the lion's share of the retail market. Most of these bookstores consist of a single physical location or a small regional chain. They generally offer both new textbooks and used books at a significant discount.

More recently, many parents and students have begun to purchase textbooks from online retailers, such as Amazon. These online vendors usually offer both new and used textbooks at a moderate discount compared to the local brick and mortar stores

Signals of Change

As Christensen discussed in "Seeing What's Next", one way to identify an industry that may face impending disruption is to look for "signals of change". In the retail textbook market, there are two major signals of change. The first signal is the large number of overshot customers. For these individuals, textbooks simply offer more features than they actually need, at a price level that is exorbitantly high.

Specifically, most textbooks include supplemental course materials, a CD-ROM, and extra chapters that may not be required in class. Also, purchasing a textbook gives a student lifetime ownership of that book, when they probably only need it for the length of the related class. All of these factors, as well as others that will be discussed later, result in extremely high prices for most textbooks. In recent years, textbook prices have increased at four times the rate of inflation, putting a huge financial strain on parents and students.

Another signal of change in the retail textbook market is the existence of many non-customers. These are individuals who are deterred from pursuing higher education opportunities, such as college or graduate school, due to the high cost of education. Clearly, textbook expenses are just a portion of the total cost of pursuing a post-secondary degree, but they can be a substantial portion, especially for students at community colleges or technical schools. Some estimates indicate that the average college student spends $1000 a year on textbooks.

Online Textbook Rental

As Christensen discussed, these signals of change indicate that there is an opening in the retail textbook market for a low end disruptive innovation. I believe one such innovation to recently hit the retail textbook market is online textbook rental. This concept was pioneered by Chegg.com starting in 2007. Since then, other companies have begun to offer a similar service, including Barnes and Noble, Book Renter, and Campus Book Rentals.

When using Chegg and similar services, students pay a small fee to rent a book and receive it in the mail. They can keep the textbook for a specified period of time, for example 6 months. At the end of this time, the student sends the book back to Chegg without paying any additional shipping. Essentially, the service is like Netflix for textbooks. The cost of a textbook rental is generally around 40 percent of the cost of purchasing a new book. Renting also usually represents a savings when compared to the option of purchasing a new book and re-selling it to the bookstore.

According to Christensen's model, this concept represents a low end disruptive innovation for the retail textbook market. Renting is not as nice as owning a book, but it is significantly cheaper and is good enough for most students.

Electronic Books

Another disruptive force in the retail textbook market is electronic books or e-books. Over the last several years, there have been a growing number of options for purchasing and reading e-books. These include sales that come directly from the publishers, through services like CourseSmart and CengageBrain. There are also a number of textbooks available in electronic format on Amazon's Kindle platform, from Google Books, and on Apple's iPad.

According to Christensen's theories, I believe e-books qualify as both a displacing innovation and a low end innovation, depending on the individual student's preferences. First, e-books can actually be more expensive than printed textbooks if you include the cost of an e-reader device. However, some students may prefer e-books in order to reduce the number of bulky books they must carry. On the other hand, some students may purchase electronic textbooks because each individual book is slightly cheaper than the printed version. But in the process, the student may give up some advantages found in printed books, including the ability to write notes in the margin and easily flip between non-consecutive pages.

Competitive Battles

Based on analyzing the strengths and weaknesses of the various combatants, it is possible to predict the outcome of the competitive battles looming on the horizon of the retail textbook market. First, the brick and mortar bookstores have one main advantage – they are located physically closer to the student, which makes them potentially faster and more convenient than some of the other options.

However, these campus and local bookstores lack the resources, processes, and values to offer book rentals in an effective way. This is because rental requires inventory tracking, storage, and economies of scale that would be challenging for these smaller and less technologically advanced stores to handle. Also, e-books are currently sold at brick and mortar stores in the form of cards with key codes on them, but it is significantly faster convenient and more convenient to get them directly online.

On the other hand, Chegg and similar companies have the motivation, resources, processes, and values to master textbook rental. These companies were built from the ground up specifically around this concept. Also, they have the technical skills to handle the inventory tracking and the national reach to effectively harness economies of scale. Meanwhile, e-book sellers are able to offer electronic textbooks directly to the student online without requiring them to visit a physical store.

Outcome

I predict that due to a combination of online textbook rentals and e-books, campus and local bookstores will face a similar fate as Blockbuster and Tower Records. In other words, these brick and mortar stores will be slowly pushed out of the business of selling textbooks, as people shift to these alternative means of distribution that either cheaper, more convenient, or both.

PUBLISHER DISRUPTION

Traditional Textbook Publishing

The next segment of the textbook industry I will discuss is the publishing market. Currently, this market is dominated by large corporations like Houghton Mifflin Harcourt, McGraw Hill, and Prentice Hall. These companies write, edit, print, market, and distribute numerous textbooks for K-12 students, as well as college students. It is estimated that the total spent on textbooks each year in the United States is between $8 billion and $15 billion.

Signals of Change

Similar to retail textbook sales, the publisher market has a number of signals of change, indicating that the market is ripe for a potential disruptive innovation. In fact, the signals here are virtually identical to those of the retail textbook market. First, the publishers have created many overshot customers, due to their practice of packing each textbook with extra features that are unnecessary for the majority of students. These superfluous features include supplemental materials, frequent revisions, and extra chapters. These additional features, along with a push for higher profit margins, have resulted in exorbitant prices for many textbooks. Recently, some textbook publishers have offered their titles in electronic format, but the prices for these e-books are still prohibitively high.

Open Source Textbooks

One technology that appears poised to take advantage of the potential for disruptive innovation in the textbook publishing market is "open source textbooks". This movement has sprung up in recent years, in response to the high prices of traditional textbooks. Using a model similar to Wikipedia, open source textbooks rely on educators to contribute material online and collaboratively build books on specific topics. This material can then be "remixed" and customized by educators, according to their individual needs.

Currently, there are several companies working on open source textbooks. One, called Curriki, was founded by the former CEO of Sun Microsystems, Scott McNealy. Another, called Flat World Knowledge, was started by two former textbook industry executives. Similar to open source software companies, these firms offer course materials free online and intend to make money by offering services around this content (or offering printed versions of the books for a small fee). Meanwhile, other educational software companies are also trying to break into the market with web-based course materials.

Competitive Battles
Again, it is possible to predict the outcome of upcoming competitive battles in the textbook publishing market by analyzing the strengths and weaknesses of the various industry players, as well as nonmarket influences. One major nonmarket influence on the industry is the existence of state-based standards for public schools. Obviously, this determines what textbooks each public school in a state can purchase and provides a big boost to the traditional publishers.

However, in keeping with Christensen's theories, while these standards will be a short term benefit to the traditional publishers, they will prove to be harmful in the long run. This is because the standards will have the effect of locking the traditional publishers into assembling their books based on state standards, which will prevent innovation on their part. Meanwhile, the open source textbook companies will be forced to initially gain a foothold in colleges and private schools, allowing them to be more experimental in their approach. This experimentation will result in more integration of video, audio, and interactive media, thus making their course materials more appealing to a new generation of students.

It is also helpful to examine the resources, processes, and values of the various industry players. Traditional publishers have built up considerable skills and experience in writing, printing, marketing, and distributing textbooks. However, these skills are a poor match for the more electronic, interactive world that education is now entering. Even when the traditional publishers offer a textbook in electronic format, it's usually just a PDF and contains no interactive elements. On the other hand, the open source textbook companies were born on the web, so they are adept at integrating interactive media into their course materials.

In terms of processes, the traditional publishers have a specific method for sourcing content from internal employees and external contractors. This has worked well in the current textbook market. However, the open source textbook model will allow the entrant firms to draw from a much wider range of contributors, thus creating more compelling content. As for resources, the traditional textbook publishers have many employees and a large corporate infrastructure to support their efforts. However, this may prove to be a long-term hindrance, since it will prevent them from being nimble and adapting to compete with the free content offered by the open source publishers.

Outcome
I predict that a confluence of disruptive forces will ultimately bring down the traditional textbook publishers. First, I believe that the increasing use of Chegg, e-books, and tablet

computers will familiarize students and parents with the idea of obtaining course materials online. Also, the increasing use of online textbook rental will decrease the number of books purchased each year, thus weakening the traditional publishers. These and other conditions will create an opening for open source textbooks and web-based course materials. Eventually, the mainstream market will embrace these alternative forms of textbooks, due to their lower cost and higher level of innovation and interactivity.

CONCLUSION

As you can see, the textbook industry is currently experiencing a wave of disruptive innovation from several different angles. First, the retail textbook market is being upended by the appearance of online textbook rental companies like Chegg, as well as the emergence of electronic textbooks as a viable learning tool. Also, the textbook publishing market is poised to experience disruption from a new crop of open source textbook companies. These innovators promise to bring major changes to the industry, and ultimately benefit consumers by offering cheaper and more engaging alternatives to the current industry offerings.

SOURCES

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