McGraw-Hill Textbook Publishing: From a Turn of the Page to a Click of the Mouse

ICSC 2013

Sales Management Case Competition

Case Introduction

The executive management team at the McGraw-Hill Education corporate headquarters was just finishing a working dinner during the last day of its annual strategic planning session. Despite four long days of thinking through the market and its business model, the management team didn't feel any closer to meaningful answers than when it started. The challenge seems simple enough...increase revenues and profits. However, the exact way to do that has been anything but easy over the last couple of years. The changing textbook market has created quite a dilemma for book publishers. Most have responded with e-books and digital content, which has seemed to help performance of most traditional book publishers. Yet the industry experts predict that the market for electronic content will begin to level off by late 2016.

"We have to find a way to differentiate ourselves in the minds of our customers!" said one of the managers on the team. The head of new product development spoke up, "I agree but how? We can't keep spending money on new product development. We have been raising prices of our traditional products to fund new product development but we are to the point where the customer just won't pay any more for our products and services." The head of content development said, "tell me about it, we have tried to release new editions of books to compete against the used book market but that is also expensive because we have to pay authors more money to make substantial updates to the books. I feel really good that we are heading in the right direction with our new Connect product but other companies are working to develop similar products as well."

The president stood up and looked out the window of the corporate headquarters building overlooking downtown New York. He turned back to the group and said, "you know what I think our biggest asset in this company is? It is our people. More to the point, it is our sales force. I think we have one of the best sales forces in the industry but I am not sure we leverage it to its fullest potential. Instead of trying to outrun the competition on technology and new products, what if we leveraged our sales force to be a source of competitive advantage for us?" The VP of Sales spoke up, "I agree completely. I have been saying this for years and am glad that you are open to the suggestion. I also think that the best way to do this is to bring in some outside perspective on how our sales team can provide more value to our customers and to the professors that we serve. In fact, just last week I met come people from a very unique consulting company that helps companies with this very issue. If it is all right with everyone else, I would like to engage this company to give us some ideas on how we might leverage our sales team to our advantage." Everyone agreed that a fresh perspective was needed and so the next day you get a phone call from the VP of Sales at McGraw-Hill asking you to come over for a discussion on how to get started on this project. Here is what you discovered after your initial meetings with the VP of Sales and some other key leaders in the McGraw-Hill Education company.

Industry Overview

Like most book publishers, McGraw-Hill is going through a radical transformation in terms of product and service innovations. E-books and Internet sites offering cheap, used textbooks have proven to be the ultimate game changer. The old model of selling textbooks through local university bookstores is losing profitability, which has ushered in a whole new paradigm for textbook publishers. While most textbook companies have expanded their products and services to be more about learning management and less about educational content, the model for managing the sales force has remained relatively unchanged.

The state of the industry is by no means rosy, as was demonstrated earlier this year when textbook and education resource publisher Cengage went into bankruptcy. State governments and universities alike have taken aim at rising textbook prices, with open source and digital alternatives putting traditional publishers under increasing pressure to provide more value in their products. California has created an open source textbook library to control costs for the 50 most popular courses at state colleges, while Washington State has introduced digital open source textbooks for community colleges.

The US book publishing industry could grow by 3 percent in 2013 compared to 2012, according to the latest industry forecast for First Research from INFORUM. Growth in electronic publishing has put pressure on prices, and some traditional publishers have been slow to meet demand by consumers for low-cost content for their e-readers. Meanwhile, the digital era has allowed authors to publish independently of publishing houses and develop their own successful franchises, cutting publishers out of the revenue stream.

Open Source Textbooks

One key threat to the textbook market is the advent of open-source textbooks. Open textbooks are high-quality college texts with an "open" copyright license allowing the material to be freely accessed, shared and adapted. Open textbooks are typically distributed online at no cost and can be purchased in a variety of other print and digital formats at a low cost, including hard bound copies. On average, using open textbooks in place of traditional textbooks saves students 80% on average.

As far as the textbook material is concerned, open textbooks have many similarities with traditional textbooks. The educational content is written and reviewed by experts, and it aims to cover a similar scope and sequence of topics. Many even come with support materials like online homework, test banks, and supplemental videos. What sets open textbooks apart is the "open" license, which enables two key features. First, open textbooks can be legally shared, copied, and distributed, so students can access the material in a wide range of print and digital formats at little or no cost, without fear of expiration dates. Second, open textbooks can be legally adapted by instructors, which makes it is possible to add new material, change terminology, or remove unnecessary chapters so the textbook perfectly fits a class.

More than 3,000 classes across the U.S. already use open textbooks, and professional-grade open textbook options are available in dozens of subjects already. On average, the savings amount to 80% over what students would spend on traditional textbooks - that's over $10,000 for the typical 100-student class.

Government Pressure

Publishers that sell to public school systems and state higher education institutions depend on state economies and local government budgets. When revenues are squeezed, states and school boards can delay buying new books or the supplemental materials that are often an important source of revenue. Local, state and federal governments have all started looking into the cost of textbooks and there is undoubtedly a great deal of pressure being applied to the text book industry in an effort to use government intervention to lower textbook prices.

Consumer groups and textbook publishers have been tussling for some time now over whether textbook prices are rising too high and too fast. If either side thought that a federal study being released Tuesday would prove its case unequivocally, it was wrong. The study released by the Government Accountability Office, offers some evidence, as student groups have asserted, that textbook prices have risen sharply -- at twice the rate of inflation over the past two decades. But the study by the GAO, which is Congress's investigative arm, also supports arguments by publishers that the increases have been driven in large part by "the increased investment publishers have made in new products to enhance instruction and learning."

McGraw-Hill Overview

McGraw-Hill Education (MHE) is a textbook example of a textbook publisher. The company publishes educational materials as both traditional and online/multimedia learning tools. The company has a division devoted to Pre-K through 12th grade, as well as one for the Higher Education, Professional, and International markets. Its Professional holdings include reference and trade publishing for medical, engineering, and other business professions. MHE has offices in about 45 countries and materials published in about 60 languages. The company was a division of The McGraw-Hill Companies until 2013, when it was sold to Apollo Global Management for $2.4 billion in cash.

McGraw-Hill Education went from being a division of The McGraw-Hill Companies to a private company owned by investment funds affiliated with Apollo Global Management. The McGraw-Hill Companies sold the education division, once its core segment, to focus on its Standard & Poor's credit reporting company. As a traditional textbook publisher, McGraw-Hill Education faces increasing competition from online publishers as schools and universities looks to cut costs. Sales of new textbooks are also impacted by the used book and rental market. As such, the company is focused on offering more digital learning products.

MHE is working to boost its digital operations through acquisitions. In 2011 it bought Bookette, a software company that provides programs to help instructors with grading online tests. The previous year, it acquired Tegrity, a provider of software that lets colleges and universities record classroom lectures and store them in a searchable database. Also in 2010 the company formed a partnership with education software firm Blackboard that allows users to access MHE's interactive titles via the Blackboard platform. The deal significantly boosted the company's flagship McGraw-Hill Connect homework management platform, which allows college instructors to organize assignments for online use by students.

Other key MHE brands include Glencoe (instructional materials), Wright Group (elementary literacy and mathematics programs), and CTB (standardized achievement tests). The company's Open University Press subsidiary is a social science and health publisher with operations in the UK and the US. International operations include businesses in Asia, Australia, Canada, Europe, India, and Latin America.

McGraw-Hill's New Connect Learning Platform

College textbook publishers are creating more digital textbooks to compete with the booming market for selling and renting used print textbooks in the US. Publishers don't make money unless students buy new books, and are turning towards e-books, which save on printing, shipping, and process returns, to help boost their bottom line. Digital versions of texts are less expensive than new print books and come loaded with interactive features. Online products accounted for 27 percent of the more than $12 billion spent on textbooks for secondary schools and colleges in the US in 2012, according to Outsell. Publishers expect that percentage to grow. E-books may eventually replace print as the primary platform for college textbooks in the US. Publishers may need to emphasize online content in order to compete effectively in the textbook market.

However McGraw-Hill has decided to take a leap ahead of the e-book market by developing an electronic learning platform known as Connect. McGraw-Hill's Connect strengthens the link between faculty, students and coursework, helping everyone accomplish more in less time. Innovative, adaptive technology engages students in the course content so they are better prepared, are more active in discussion, and achieve better results. With Connect's easy-to-use interface nothing stands in the way of instruction or student learning. McGraw-Hill learned from its partnerships with instructors and students and combined it with feedback from thousands of conversations and ethnographic research on college campuses nationwide. The result was a user-focused tool that fully engages students and solves real-world teaching challenges. Key features of the Connect tool include:

- Straightforward Course and Assignment Set Up
  - Simple integration with every LMS
  - Effortless Grading
  - User-Friendly Learning Aids
  - Integrated eBooks

For more information on the new Connect product, visit: http://connect.customer.mcgraw-hill.com/about/

The McGraw-Hill Sales Force

While McGraw-Hill has invested considerable time and resources into its new learning platforms, not much has changed in regards to the sales force. The current sales force is made up of roughly 300 direct sales reps that work in the field meeting with professors and managers of campus bookstores. The company also has about 70 inside sales reps that handle inbound calls from campus bookstores for order placement and customer service issues. The sales force is organized by both geography and by educational topic area (See org charts in the Appendix). For example, in the North Florida territory there are three sales reps that call on all universities and community colleges in a roughly 350-mile territory. The number of universities and community colleges handled by each rep is roughly 15-20 schools. Each of the three reps represent one of three content areas; Humanities, Life Sciences and Math, and Business and Economics.

A Day in the Life of a McGraw-Hill Rep

Typically, a rep creates a campus plan the night before visiting a school. The plan is driven by revenue opportunity and includes specific targets, professor names, professor office hours as well as course information (enrollments, products in use) and decision dates for the school. The rep works a full day on campus, trying to see as many professors as possible (usually 20-25). Conversations with professors can be as short as 5 minutes or as long as 60 minutes. Most conversations with professors will also include some sort of technology demonstration (rep will use ipad or professor's own computer). The goal of every interaction with professors is to move the adoption (sale) forward. Reps often have ride "alongs" with their manager, a product team person or Digital Sales Consultant. Reps will also meet with managers of campus bookstores to make sure the store is up-to-date on books being used in certain courses and that the store will order enough inventory for the start of each semester.

The goal for these calls is to get the professor up to speed on the latest offerings from McGraw-Hill and to use a consultative sales approach to learn what the professor is struggling with in terms of educational content. Ultimately, the rep wants to be able to make recommendations based on each professor's specific content needs. For years, the reps have been trained on the content library that McGraw-Hill offers so that they know all of the books available to be used across all of the subjects in their topic area. However you have talked to a couple of professors and learned that most of the time, book reps (from any of the textbook companies) simply pop their head in the door and ask the professor if everything is going OK. Unless the professor asks a specific question, the rep simply moves on to the next professor. You feel like this is an area that could use some further exploration.

Compensation

McGraw-Hill reps are paid a base salary and then a year-end bonus based on revenue growth in their area. On average, a McGraw-Hill rep makes a salary of approximately $50,000 and bonuses range from $10,000-$20,000 depending on the rep's performance. The bonus is based on a sliding scale of % to quota performance. 95% of quota pays the minimum bonus and maximum bonus is paid out 105% of quota. Any dollar amount over 105% of quota is split 50/50 between the rep and the company. An average rep sales roughly $1,000,000 in books per year with top reps selling $3,000,000-$5,000,000 per year. Quotas are based on growth and are determined by the district manager. Typically, the district manager is asked to grow his/her district by approximately 10-12% and how the percentage increase is to be allocated to reps quotas is up to the manager.

In addition to salary and bonuses, each rep is paid $750/month in car allowances, $100/month for a cell phone and has an expense account of approximately $7,500 for the year.

Hiring and Training

McGraw-Hill has a very broad recruiting plan. It recruits from a variety of sources. Top candidates come from referrals from successful, competitive reps. McGraw-Hill also works with college sales programs and programs that help veterans find jobs after leaving the military. Finally, the company uses social media—targeting people with sales experience and coming from industries with well-known training programs.

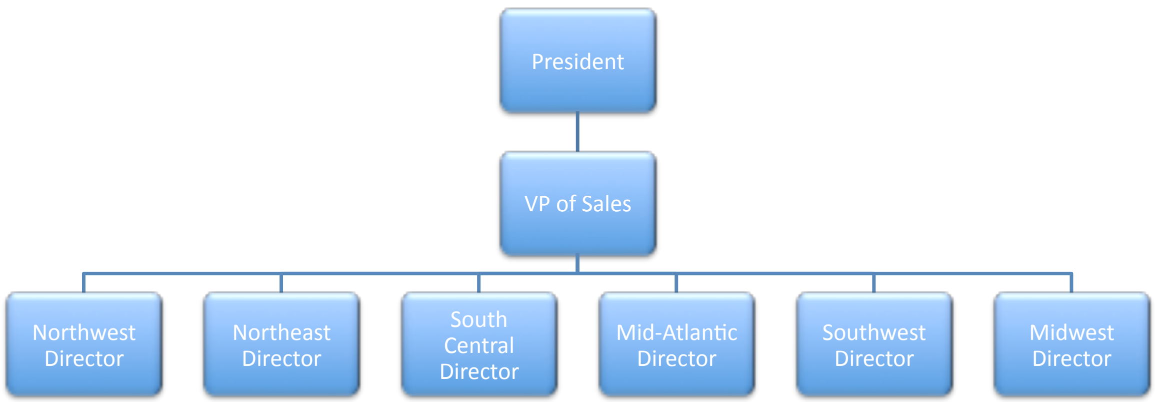
Training has a beginning date, but not an ending one! Reps start with a prescriptive training plan for the first 2-3 weeks led by their manager— this in-office training involves shadowing, role-plays and training on everything from our sales model to products to technology. Once reps have been in the field for 6 months they are invited to a one-week training seminar in the home office, which is offered twice a year. This one-week seminar is a reinforcement of the training that the new reps have received in the field from the district manager. Training for more experienced reps takes place during regional and national sales meetings as well as informal, peer-to-peer training.

The Presentation

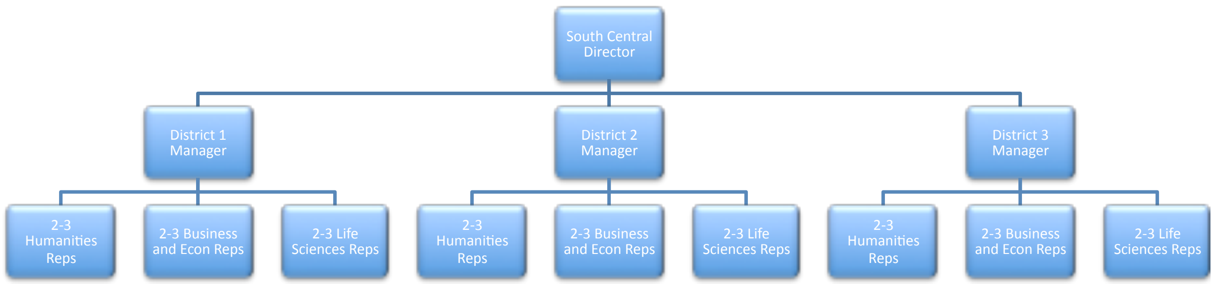
You and your team of consultants have been asked to make a short presentation to the McGraw-Hill Executive team to outline your initial findings and your ideas for the future of McGraw-Hill's sales force. The exec's don't have a lot of time so you need to be succinct and to the point. In fact, the VP of Sales asks you to keep your presentation to 15-20 minutes so that the team will have time to ask you a couple of questions.

Appendix

McGraw-Hill Sales Force Organization



Typical McGraw-Hill Region



North Florida Territory