

**Memorandum**

**To: DALNET Finance Committee**

**From: J. Bosler**

**Subject: Call for a Meeting**

**Date: December 16, 1998**

Please be advised that the DALNET Chairperson has requested that the DALNET Finance Committee meet to continue its discussion on the cost of participation in DALNET by new members, information providers and customers.

Therefore a meeting of the DALNET Finance Committee is scheduled for Monday, January 11, 1999 from 11:00 a.m. to 1:00 p.m. at the WSU Undergraduate Library in the Dean's Conference Room. You can bring your lunch or you can go out to lunch from 1:00 p.m. - 2:00 p.m. There is a DALNET Board Meeting scheduled for 2:00 p.m. on the same day. If you are unable to attend the Finance Committee Meeting, please inform me.

**Agenda**

- I. Approval of Finance Committee Minutes of December 7, 1998
- II. DALNET Participation: Cost to Information Providers
- III DALNET Participation: Cost to Customers
- IV New Business
- V Old Business
- VI

**Adjournment**

**DALNET Finance Committee  
Wayne State University  
Meeting Minutes  
January 11, 1999**

Present: Margaret Auer, UD-M; Gerald Bosler, MCC; Patricia Senn Breivik, WSU;  
Robert Harris, WSU; Phyllis Jose, OC - L.

The Finance Committee continued to consider the cost of DALNET participation based on the type of member: full member, information provider and customer.

**Issues**

There were a number of points to consider. The Board needs to set a direction as to whether DALNET needs to recover its developmental costs when charging for its services. In such a case, charges would reflect a need to be reimbursed for costs already expended. These charges would not necessarily be intended to be attractive to the perspective member. The purpose would be to allow participation at a commensurate cost with the historic DALNET members.

In the alternative, the Board may wish to consider that every dollar coming in to DALNET compensates all the members for its future costs. The cumulative effect of adding new members with attractive pricing may create an economy of scale which defrays long term DALNET expenditures. The advantages of bringing in a large number of new members are: a richer database, reduced long term costs, increased grant potential and standardization of information access among members.

Finance Committee members were in agreement that DALNET needs to recover its real costs for bringing in new members, information providers and customers, while at the same time remaining competitive in the market place for library services.

The Board should be asked to react in principle to these two choices.

**Cost Assessment**

At the previous meeting, Finance Committee members were in favor of never charging a new member less than \$7,500 for capitalization plus ongoing costs. This proposal is tied to what the smallest historic member pays for DALNET participation. While negotiation may occur this stipulation is considered a minimum requirement.

The Partnership Agreement between Ameritech and WSU provides that Ameritech will be paid for each new member on a sliding scale based on the number of records the new member will add to the DALNET database. The formula is:

0	- 10,000 records =	\$ 0
10,000	- 50,000 records =	\$ 5,000
50,000	- records =	\$10,000

DALNET may wish to double the maximum amount charged by Ameritech to secure a fee for time and effort expended by DALNET staff for bringing in a new member. In such a case the amount quoted to a perspective member would be \$20,000 for capitalization costs.

In the alternative, DALNET may also wish to offer a perspective member a figure which is 5% - 10% less than capital and operating costs quoted by Ameritech for a free standing system.

As previously agreed, the money gained from charging DALNET fees would be split 60% to WSU to cover its underwriting costs and 40% to DALNET for expenditures to be determined by the Board.

## Models

### Option 1

In negotiating an agreement, a tiered method would be used. The formula would be based on the method which was applied to the original DALNET members.

New members with less than 10,000 records would pay a minimum of \$10,000 for one-time capitalization plus ongoing costs for maintenance and day-to-day operations. The rationale is that if a new member had less than 10,000 records there would be no cost due to Ameritech. Thus, DALNET would only charge its own fee of \$10,000. Total upfront cost: \$10,000

In the event the perspective member had between 10,000 - 50,000 records to add to the DALNET database, the charge would be no less than \$20,000 plus \$5,000 to cover the Ameritech licensing fee plus ongoing costs. Total upfront cost: \$25,000

In the event the perspective member had in excess of 50,000 records, the charge would be no less than \$40,000 plus \$10,000 for the Ameritech fee plus ongoing costs. Total upfront cost: \$50,000

### Option 2

In negotiating an agreement, DALNET would charge no capitalization cost but would require the new member to participate in ongoing costs based on the tiered method that the historic members pay. However, a new member would never pay less than \$7,500. Such new members would have to pay the Ameritech entry fee depending on the number of records they wished to add and they would not have voting rights on the DALNET Board.

Example 1: Institution X with 36,000 records would pay \$5,000 for the Ameritech new membership fee and ongoing costs of approximately \$20,000 per year.

Example 2: Institution X with 36,000 records would pay \$60,000 up front to be paid out over 3 years.

### Option 3:

In negotiating an agreement, the operating tenant involved is that DALNET will attempt to charge 5%-10% less than the one time capitalization cost that Ameritech would charge a new member for a stand alone Horizon system and never less than the ongoing cost that DALNET owes Ameritech. These costs are tied to what Ameritech would charge for ongoing costs. In setting parameters, the Ameritech licensing fee of \$5,000 - \$10,000 must be covered. DALNET will never charge below \$7,500 as a minimum plus ongoing costs. The new member can pay up front or parcel out the costs over the period of the contract.

In negotiating an offer, DALNET may attempt to legitimately seek cost figures from Ameritech or the perspective library. Further discussion with Ameritech is necessary to see if this option can be offered.

As part of the negotiating process an offer will be made with legitimate costs. If a perspective member indicates that they cannot pay, further negotiation can be considered.

In creating the principles for a deal making process who will make the final decision when using Option 3? WSU, the DALNET Finance Committee, the DALNET Board?

In terms of marketing using Option 3, DALNET needs to be competitive and the bid offer must be attractive. As a marketing strategy what can be said?

“Bring your quote from a reputable vendor and DALNET will undercut it.

“DALNET will beat your best deal.”

“DALNET will come in less over a five year period.”

### **Customer**

DALNET pricing for a customer was considered because Focus Hope has made inquiries about joining. Finance Committee members suggested that Focus Hope might be designated a DALNET customer. Should a customer pay a per use fee? A flat fee? A per search fee? An item fee? A borrower fee?

A user fee would be based on the enrollment or the number of users to be served. A flat fee to belong to DALNET needs some concrete logic to explain pricing. In recommending a flat fee, should DALNET also consider reciprocal borrowing fees which include a RSS / ILL fees? Such considerations may be better considered at the committee and task force level. The DALNET academic libraries have begun work on a reciprocal borrowing agreement and will soon take up RSS / ILL considerations

Consideration was given to never charging customers less than \$5,000. A customer entry fee might be designated with a negotiable range and stipulating a dollar amount per page for copying provided. Should the DALNET Board vote on allowing membership for each new customer? Should customer membership be decided on a case by case basis?

It is necessary to check to see how many students Focus Hope has enrolled as well as how many transactions they anticipate based on: DALNET search access, reciprocal borrowing, and RSS borrowing.

### **Information Provider**

It was suggested that the entry of an Information Provider should be at the discretion of WSU while keeping the DALNET Finance Committee and the DALNET Board apprised of negotiations. The intent is to allow maximum mobility in negotiating an agreement that would add to the DALNET database of information. The intent should always be to recover the actual costs in bringing in a new member while at the same time enriching the database. Attempts at negotiating additional money to defray DALNET expenses are also viewed as a priority. It is hoped that grants will be sought to underwrite the costs of including Information Providers.

Information Provider Option A: create a subset, making an Information Provider a Customer and offering an ala carte of services on the Horizon system..

Information Provider Option B: provided there was consensus among the DALNET Board, another option would be to phase in DALNET / Horizon services to an Information Provider over an extended period of time, coming in at a lower rate, spreading out the cost of entry into DALNET.

It was suggested to compare DALNET against the TLN library system in terms of costs and services.

Note: At the DALNET Board meeting that immediately followed the Finance Committee Meeting it was noted that there are a number of costs attendant to adding a new member. They include: additional server requirements, record loading costs, data conversion costs, training costs, additional consulting costs and documentation costs. It was also indicated that the current configuration was sized for the historic DALNET members. Additional members may cause the server requirements to change. Consequently, caution needs to be exercised in creating pricing formulas.