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Stanford Encyclopedia of Philosophy: Launching a 'Freemium' Model

Case Study Update 2011

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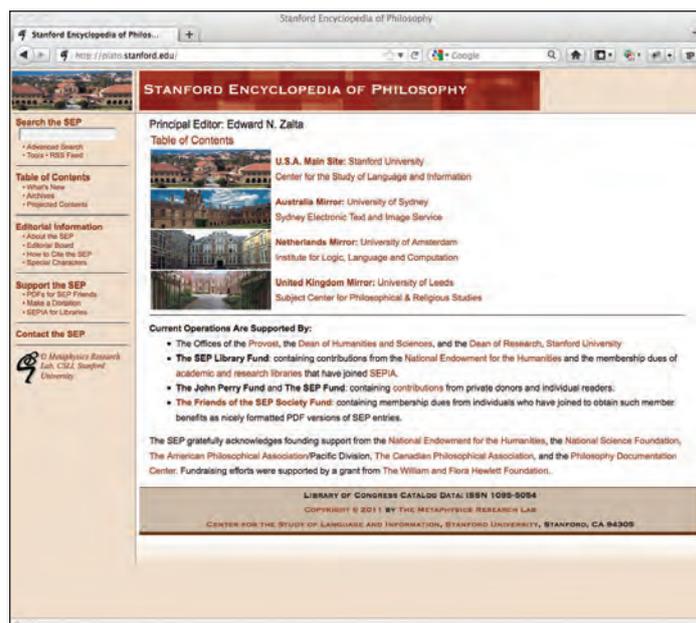**JISC Content**

Ithaka Case Studies in Sustainability

The Stanford Encyclopedia of Philosophy (SEP), a peer-reviewed, open-access online reference, draws the majority of its funding from investment returns from a project endowment, built from the financial contributions of academic libraries. When we first studied the project, it had made great progress toward its goal of building a $4.125-million endowment, but it faced uncertainty over the extent to which the economic downturn in 2008 would affect its investments. In the two years since then, as endowment support has not yet reached needed levels, SEP's leaders have developed a new channel of support for the resource by designing and launching a 'Friends of the SEP' membership programme for individuals, who gain access to PDF versions of SEP entries and versions formatted for mobile devices.

Founded by Stanford University researchers John Perry and Edward Zalta in 1995, the Stanford Encyclopedia of Philosophy (SEP) is an online, open-access reference source that consists of more than 1,200 original, signed entries, ranging from 'abstract objects' to 'zombies'.[1] The entries are written, edited, and reviewed by philosophy scholars who volunteer their time, and the entire operation is managed by Zalta and senior editor Uri Nodelman, each of whom is allocated to the project at 0.75 FTE, with assistance from three additional part-time project staff members, based at Stanford's Center for the Study of Language and Information.

Original sustainability model (2009)

In order to provide free content, the SEP model has always kept direct costs low by relying heavily on volunteer labour to write, review and edit the articles. According to Zalta,
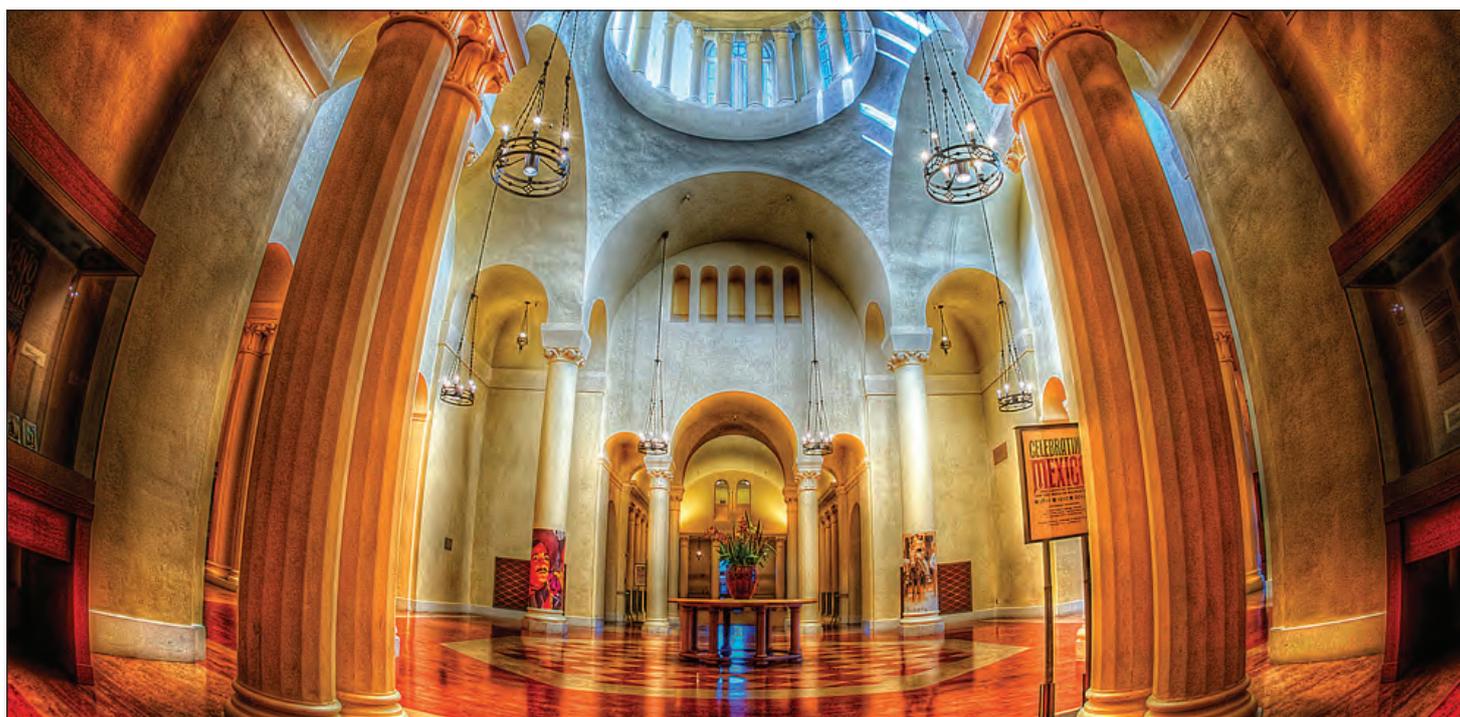

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participation by scholars remains high in 2011, validating the project leaders' assumption that a rigorously reviewed, open-access resource would attract strong participation from authors, subject editors and reviewers.

'SEP's goal has been to build a project endowment that will provide sufficient funds to cover all direct operating costs, including editing, updating and maintaining the SEP's content and technology.'

Once it became a mature reference work (in 2002), SEP's goal has been to build a project endowment that will provide sufficient funds to cover all direct operating costs, including editing, updating and maintaining the SEP's content and technology. Initially, project leaders estimated that this

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[1] Matthew Loy, 'Stanford Encyclopedia of Philosophy: Building an Endowment with Community Support' (New York: Ithaka S+R, 2009), www.ithaka.org/ithaka-s-r/research/ithaka-case-studies-in-sustainability/case-studies/SCA_BMS_CaseStudy_SEP.pdf.

The Library at Stanford University, Flickr / dacoach88_89

would require an endowment with principal of $4.125 million. As of 2009, their intensive outreach efforts had yielded a total of $3.3 million: more than $1.7 million from academic libraries, with an additional $1.125 million from private donors (raised with the help of Stanford) and $500,000 from a matching funds award from the National Endowment for the Humanities Office of Challenge Grants.

University and college libraries that wish to be recognised as members are asked to make a one-time contribution to the project endowment, which may be spread over three years. The size of the requested contribution is based on the highest academic degree that an institution offers in philosophy: schools that grant only undergraduate degrees are asked to contribute $3,150, while doctoral institutions are asked to contribute $15,750.

The project's success in raising funds from academic libraries – even though SEP's content is freely available to all – was born out of a general unease in the academic library community at the time about the high cost of subscriptions to scholarly journals. According to Zalta, the idea of building an endowment to support an open-access resource seemed to librarians like a worthwhile experiment, given what libraries were paying for other scholarly resources.

The support of Stanford University is another critical piece of SEP's sustainability model. Because the endowment has not yet reached the targeted size, its annual payouts do not provide enough funding to cover the project's annual costs. To help sustain the project, Stanford's Provost and Dean of Research have provided direct funding to cover the difference between endowment income and the project's overall costs. The project leaders continue to communicate with Stanford's administrators about the project's impact and its value to the University.

How the model has fared

In the two years since we first studied SEP, the project's sustainability model has felt the effects of the difficult economic climate, in great part because of its reliance on an endowment. The economic downturn lowered the value of the investments held by the SEP endowment in 2009-2010; however, the project's investments have rebounded since that time. In budget projections for 2010-2011, the project leaders forecast that the endowment would pay out approximately $178,500. The current value of the endowment is approximately $3.34 million, which puts SEP approximately $780,000 away from its original fundraising goal (and so in markedly better shape than in 2009-2010). Of course, if the economic environment changes, fluctuations in the endowment's market value and yield will have consequences for the project's budget and for its overall fundraising goal.

Changes in direction and new initiatives

While the endowment model is still the cornerstone of SEP's sustainability model, over the past two years only 12 additional academic libraries have opted to contribute. As the endowment is not yet large enough to return sufficient investment income each year to cover the project's costs, and as economic conditions can always potentially lead to fluctuations in the value of the endowment, the project leaders have begun to identify new sources of revenue.

Introducing an individual membership model. In 2009, SEP experimented with a new programme to generate revenue, launching the 'Friends of the SEP Society'. Designed for individuals rather than institutions, the programme allows

Sustainability dashboard

	2009 Case Study*	2011 Update**	What's Changed?
Content	1,000 entries	1,254 entries	+25%
Functionality	Full-text search	Added formatting for mobile devices	Added functionality
Sustainability Model	■ Endowment ■ Institutional support	■ Endowment ■ Institutional support ■ Introduction of an individual membership program	New membership programme accounts for much of the increase in revenue
Costs	$220,724	$234,985	+6%
Revenues	$220,724	$234,985	+6% (host institution provides bridge funding, so the project breaks exactly even)
Impact	■ Nearly 1,300 authors contributed (or were commissioned to contribute) entries ■ Nearly 600 libraries made contributions to the endowment	■ 12 additional libraries have contributed to the endowment since 2008 ■ 1,700 individuals have joined Friends of the SEP	Modest increase in the number of libraries contributing to the project's endowment
Sustainability Bottom Line	Support from the philosophy and research-library communities has helped to build a significant body of original scholarly content, and a sizable endowment	While the endowment has been successful in supporting the majority of the project's operating costs, SEP's original fundraising goals have not yet been met; it has created a new revenue stream via individual memberships and relies in part on direct support from Stanford	

* These costs and revenues reflect SEP's 2008-09 fiscal year.
   Note: Estimates provided in 2009 case study have been updated with actual figures.

** These costs and revenues reflect projections for SEP's 2010-11 fiscal year.

paying members to receive access to formatted PDF versions of entries from SEP.[2] Users can print these files or export them to a Kindle, iPad, or other mobile reading device. Memberships are priced in three tiers:

- Student members pay $5.00 per year and can download up to five different PDF entries per day.

- Non-student 'associate members' pay $10.00 per year and can download up to five different PDF entries per day.

- Professional members pay $25.00 per year and can download an unlimited number of PDF entries.

In the first year of the new service, the Society attracted approximately 1,700 members, most of them at the lower two price tiers, generating revenue of $20,000. The revenue from individual memberships far exceeded the project leaders' initial goal of $10,000; given their modest expectations, Nodelman calls the programme 'an unqualified success'.

Supporting the costs of services that were once contributed. The SEP depends on individual volunteers for writing and editing, but it has also relied on contributed efforts from other organisations. One example was billing services, which

were contributed by the former SOLINET library consortium. Since the time of the original case study, SOLINET merged with another library consortium to form a new entity, and it no longer provides free billing services to SEP. The cost of library memberships to support the SEP endowment has been increased to pay the Philosophy Documentation Center, a not-for-profit organisation that serves the academic philosophy community, to manage the process of billing libraries that contribute to the project endowment.[3] SEP has raised the amount of the requested contribution from each tier of academic library by 4.76% – a modest increase, but a step that the project may need to use again in the future if it is required to take on the costs of in-kind contributions from Stanford University or other partner organisations.

For now, no appeal to member libraries to contribute more funding. One potential source of revenue for SEP – and one way to further build the endowment – would be to ask those libraries that have already sent funds to the endowment to make another contribution. However, Zalta and Nodelman have resisted taking this path, saying that they would only contemplate returning to SEP member libraries for more funding if those libraries received additional services in return for the new payment.

2 The programme relies on an automated PDF formatting process, which was designed and implemented with the support of a grant from the Hewlett Foundation.

3 www.pdcnet.org

Sustainability outlook

SEP is in an interesting position today. While endowment payouts are rising again after a difficult year in 2009-2010, recent years have shown how challenging it can be to rely solely on income from an endowment. In the past, the project has been able to depend on Stanford University for funding to bridge the gap between the endowment payouts and its budget, and it has worked to build a robust new revenue stream through the Friends of the SEP Society individual membership programme. These factors have helped to mitigate the impact of an economic downturn on the project's endowment, which remains the largest source of support for SEP.

Moving forward in a time of economy uncertainty, it is clear that outreach will continue to be important for the project. SEP's leaders have put a great deal of time and energy into advocating for the resource to other philosophers, to academic librarians, and, in particular, to senior-level administrators within the project's home institution. SEP's relationship with Stanford is particularly important, as the University provides bridge funding that allows the project to meet its year-to-year budget, so ensuring the stability of that relationship, and communicating the value of the SEP to Stanford's administrators, will be crucial to the project's sustainability plan in the years to come.

Lessons learnt over the past two years

- Even projects that offer open access to content can develop alternative revenue streams: project leaders must, however, create the proper incentives for the user community to contribute

- When community support is a critical factor in the success of a project, time and effort must be made not only to cultivate new relationships, but to nurture existing ones

Interviewees

Edward Zalta, Principal Editor, Stanford Encyclopedia of Philosophy

Uri Nodelman, Senior Editor, Stanford Encyclopedia of Philosophy,
23 April 2010 and email of 16 February 2011

This case study update was researched and written by Matthew Loy as part of the Ithaka Case Studies in Sustainability project.

Summary of revenues and costs

	2008-2009*	2010-2011	Comments
Total revenue	**$220,774**	**$234,985**	**+6%**
Endowment payouts	82%	76%	
University support	13%	13%	
Misc. income (Friends of SEP, royalties, etc)	6%	11%	
Total costs	**$220,774**	**$234,985**	**+6%**
Personnel costs	92%	87%	
Non-personnel costs	8%	13%	
Number of staff	1.85 FTE	1.85 FTE	
In-kind/volunteer contributions	**Endowment management, office space, hosting, and tech support provided by Stanford; 100+ volunteer subject editors and 1,300 volunteer author contributors**		**Billing services formerly contributed but now included in budget**

Note: estimates provided in 2009 case study have been updated with actual figures.

Explanatory note

The information presented in this table is intended as a broad picture of revenues and budgeted costs associated with the project, not as a detailed financial report. It does not include in-kind contributions or other unbudgeted items, though these are described where they are known. The financial data, which are presented in the currency in which the project reported the information, were compiled as part of the interview process with project leaders and staff, and in some cases were supplemented with publicly available documents, such as annual reports. Many of the figures are rounded or best estimates. Some leaders preferred not to offer figures at all, but suggested percentages instead. Because of the variability in the way each institution estimated the various categories of revenues and costs, the information presented in the table is of limited value for detailed cross-project comparisons.