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The Evolution of Business Sources: An Environmental Look at Information Providers and a Prediction for the Future or “It’s really not so bad, and it’s gonna get better!”

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Abstract

Delivery of information sources over time has been summarized simply as print to electronic, with consolidation of players quashing responsiveness to consumers, raising prices, and dashing entrepreneurial spirit. Actually (and thankfully) it has been more complex.

The author, a former financial information services executive, reviews the evolution of corporate business information providers and offers evidence that their progression has been constructive. The perspective is that of the ecology of business information, thinking about ecology as the business information environment and its inhabitants. Starting with an overview of what exactly business information includes, and using the entity relationship model of database modeling, a typology of players, sources, and information delivery is presented. News aggregators bringing together regional sources, databases publishers packaging information available on individual websites and from filings, and companies creating electronic repositories of paper and other dispersed documents undoubtedly resulted in larger entities. But while stronger providers acquired smaller niche players and startups, these acquisitions encouraged new players. Vested former executives who cashed out, started new niche companies or joined smaller companies. Boosting this bubbling up of new players are the regulators, who are supporting middle-tiered players in their growth as competitors.

The prediction is that while high-end aggregators will continue to sell value-add products with all available content for high prices and will pay to acquire content and technology, smaller companies will continue to arise in order to grow and compete or sell to the big guys. Furthermore, second-tier providers are now poised to become big players themselves. And individual sources will still be available, and usually easier to find and retrieve.

Introduction and a Construct

I am going to provide an overview of what I call the ecology of business information, thinking about ecology as the business information environment and its inhabitants. First, an overview of what exactly business information includes. There is a lot of stuff out there – “information overload” certainly exists in the business world. Just look at all business news channels – they broadcast “business info” all the time. So it is helpful to have a construct in which to talk about business information. One can use the database concepts of entities and relationships for this; these can be described in terms of entities and events. Entities include companies, industries, geographies, regulators, and people. Specifically they are:

- Companies
- Industries
- Regulatory Agencies
- People
 - Officers/Directors
 - Investors
 - Shareholders

Events can be attributes of entities and/or link them:

- Corporate Actions
- Deals/Financings
- Management Changes
- News

A corporate action is any event initiated by a corporation which impacts its shareholders. For some such events, shareholders may or must respond to the corporate action or select from a list of possible actions. Examples include mergers, spinoffs, stock buybacks, and stock splits. Deals may be corporate actions if the company is public, but also include other financings such a round of venture financing, or issuance of a bond. Deals and financing hence link the company and financier entities.

Entities and events have attributes, which may also be entities. Note the major attributes which describe entities:

- Company
 - Industry
 - Location(s)/HQ
 - Developmental Stage
 - Public/Private
 - Financials
- People
 - Role
 - Officers/Directors
 - Investors
 - Shareholders
 - Age, Interests, Characteristics

In the world of business, entities and events are connected.

Entity Relationships

Now overlaying this environment with its relationships are specific business sources.

- News
- Regulatory Releases
- Public Filings
- Company Websites
- Legal Sources
 - Looseleaf, Treatises, Hornbooks
- Exchanges and Bourses
- Analysts

The Evolution of Business Information Providers

Historically, there was close to a one-to-one correspondence between entities (and their associated relationships) and information providers. Individual sources provided limited information on individual entities and transactions:

- News sources provided information on companies, people, and corporate actions
- Public Filings on companies, insiders, and investments
- Company Websites on companies, corporate actions, and people
- Legal Sources and Exchanges and Bourses on the securities themselves
- Market Research/Analyst Reports on companies, industries, and securities (prices)

Over time, news aggregators brought together regional sources, company databases combined information available on individual websites and from filings, companies created electronic repositories of paper and other dispersed documents. Information providers began to both aggregate information and provide niche services. Examples include:

- Aggregators:
 - Bloomberg, Thomson, Reuters

- S&P
- Dow Jones
- Niche Information:
 - Capital IQ
 - Securities Data Publishing
 - VentureOne

In some cases, the level and pace of aggregation was remarkable. Thomson, for example, was formed by the merger of Thomson Newspapers and Interactive Thomson, which itself was formed by the merger of Technical Data Corp and Business Research Corp (Investex).

The end goal for aggregators was (and still is) to provide a wider range of information and connect it in workflow tools. Paper and newspapers became less important. Stronger providers acquired smaller niche players and startups.

Activity 1999 onward included:

- Reuters acquired VentureOne, Moneyline Telerate, Multex, EcoWin, Starmine
- Thomson acquired Primark, Datastream, IBES, First Call, SDC, Quantitative Analytics
- S&P (McGraw-Hill Companies) acquired Compustat, Capital IQ
- Dow Jones bought Technologic Partners, Alternative Investor, VentureOne

But mergers and acquisitions did more than create fewer monolithic companies. Acquisitions encouraged new players to create electronic products from multiple sources as well as summary databases from myriad transactions. One example was TradeWeb which targeted fixed income pricing and trading (and was subsequently bought by Thomson!). Other new players organized information available from older vendors into new client workflow tools (e.g., Capital IQ – subsequently acquired by S&P). Still other new information providers took available information and layered on processes to clean and merge data (e.g., FactSet).

Vested former executives who cashed out started new niche companies or joined smaller companies. With deep inside knowledge they aimed to create better *products* (workflow). Since they built their offerings from the bottom up, they were often able to introduce better content collection methodologies. Their incentives were based on challenging the status quo and introducing better products.

The Current State and a Forecast

This evolutionary cycle continues today. While the big players get bigger and focus on product offerings which provide everything large clients need in workflow organized packages, smaller providers continue to sprout, hire seasoned executives, and hope to grow large enough to acquire others or become attractive enough to be acquired themselves. Furthermore, regulators are now more aggressively supporting middle-tiered players in their growth as competitors.

With the 2008 acquisition of Reuters by the Thomson Corporation, The European Commission, in a joint decision with the US Department of Justice, mandated the spin off of copies of the combined companies' strongest overlapping databases. In fact, they deemed the information stores themselves as most critical to a competitive marketplace.

A copy of Worldscope Fundamentals from Thomson Financial, as well as product technical support, was sold to FactSet. This effectively boosted a second-tier competitor competing on value-added data scrubbing of aggregated information into the prime time. In addition, as part of the “remedy” to potential antitrust, several employees devoted to Worldscope fundamentals data within Thomson Reuters were offered and accepted positions with FactSet.

Reuters EcoWin Economics time series data was sold to ISI Emerging Markets, which was founded in 1994 and acquired by Euromoney Institutional Investor PLC in 1999. “The purchase of this data allows us to enhance our existing Asian and emerging market expertise and to offer our customers a genuinely global economic database,” said Brian de Lacy, CEO of ISI.”¹

And copies of Reuters Estimates and the Reuters Research-on-Demand databases were sold to S&P’s Capital IQ, which has up until now occupied an investment banking niche by virtue of superior workflow tools for both junior and senior bankers. This sale also included training materials, source documents and support services. As stated in a news release in Capital IQ’s parent company’s (The McGraw-Hill Companies) Investor Relations website, “the agreement accelerates Capital IQ’s own estimates database project and launches Capital IQ into the aftermarket research market place. The acquisition rounds out Capital IQ’s data offering adding another piece in its comprehensive global analytical solution.”²

Effectively, the megamerger of two huge rivals was tempered by the regulatory boost of three competitors. By increasing the content offerings of players who formerly occupied lower positions in the evolutionary hierarchy, the European Commission ensured that the business information provider environment would be dynamic over at least the next decade.

Another dynamic added to this disruption of corporate block building. In addition to the divestiture of certain assets of the combined companies to other entities deemed viable of competing at a higher level, there was operationally close to a reverse merger of Reuters into Thomson Financial. The acquisition also resulted in a massive reorganization of Thomson Financial which placed many former Reuters executives in leadership positions. As a consequence, many former TF executives left, some to positions outside the industry and those with entrepreneurship spirit to start ups in niche markets.

Hence, underneath the “cover story” of the merger of two business information titans and further consolidation of publishers is a series of drivers of market diversity.

Summary

Today, Information Sources and Providers may be categorized by level of aggregation:

Individual Sources <ul style="list-style-type: none"> - Newspapers - Research Reports - Company Websites - Filings 	Aggregated Databases of Individual Sources <ul style="list-style-type: none"> - Factiva, ABI-Inform, Dialog, etc. - Investment Sites - Mergent - WRDS
Niche Market Workflow Products <ul style="list-style-type: none"> - LibraryHouse, - IPEEX 	High-end Workflow Products with many Inputs <ul style="list-style-type: none"> - ReutersXtra, 3000 - Bloomberg - Thomson One - Capital IQ - FactSet

The high-end aggregators aim to sell value- add products with all available content for high prices and will pay to acquire content and technology. Mid-level players have become larger by developing superior workflow tools and themselves growing their content portfolios. Smaller companies will continue to arise in order to grow and compete or sell to the big guys, and individual sources will still be available, and usually easier to find and retrieve.

¹ Press Release, ISI Emerging Markets. July 28, 2008.

http://www.securities.com/press/press20080728_1.html Accessed 1/6/2010.

² Investor Relations News Release, The McGraw-Hill Companies, October 7, 2008.

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