

After the ball was over...

Looking back over the last two years, Clive Hollick takes a candid look at the experience of his United Business Media Group and the lessons to be learned from the Great Dotcom Bubble.

Over the last two years, our group has lost – or invested, if you want to put it nicely – about £100 million trying to find out how to make money on the Internet. Let me take you through what has happened to us over these two years, then try to explain where we are now focusing our interest and to share some insights about what we have learned along the way.

Two years ago we were driven by those two powerful forces: fear and greed. With our publications – both business to business and business to consumer – we were fearful that someone else from the online world would come along and eat our lunch. We were also fearful that many of our other information services, like *PR Newswire*, which is the largest distributor of news releases in the United States, would be disintermediated. So we said: “We really do have to respond to this threat, because if we don’t participate in this information revolution then sure as hell we’re going to lose out.”

Greed also pushed us forward, because we saw the opportunity of creating wholly new revenue streams, new opportunities to take money from our customers by providing them with

a range of new services. We also saw an opportunity to move into a new market for us, a market related to transactions. We knew that we were a media company, a company that published information, a company that collected information through our market research group (National Opinion Polls) and that distributed information through *PR Newswire*; but we were not actually part of any transactions. We saw in the Internet

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an opportunity to create some offerings that would allow us to participate in the commerce that went on in the markets that we described.

For example, we are the largest publisher of information about the paper and pulp market in the United States – a market with a turnover of about \$350 billion a year. Our business case was simple. Starting with a total annual market worth \$350 billion, the services that we were going to be offering would provide us with a turn of, say, 0.00125%. I never quite understood why we chose 0.00125%, but it was clear that we were looking at potentially a hugely profitable business opportunity and one that we could not pass up. I am, of course, oversimplifying, but we did believe that our strong position in terms of information gave us a great opportunity. We already had all the market information, so we knew what the prices were at each stage in the delivery chain, and we knew all the other main financial indicators. We thought, therefore, that it would be relatively easy to get involved in the market transactions themselves.

With hindsight, you can immediately see the absurdity of this strategy. But at the time our shareholders shared the vision. They thought: “This is a

marvelous way of making more money out of the existing assets. Just wrap a little bit of IT round them and put them on the net." So, with this good following wind, we set forth.

The first thing we did was to replicate all our publications and services online. That exercise proved to be so-so. We did derive quite a lot of extra advertising revenue in this way. For example, we publish *Information Week* in the United States, with a circulation of about 440,000 copies a week. It goes to all the CIO's in the United States. Since we could now deliver much the same audience for daily news updates and archive services, we could get good advertising revenue on the back of the new activity. That worked well. We got (and still have) advertising revenue of around \$200 a thousand, which is a good rate for targeted advertising.

Our second move was to set up portals linked to our areas of interest in the US, designed to attract a broad cross-section of people either in the IT industry or the paper and pulp industry or the health care industry. These portals have proved to be problematic. Many people visited our sites and at investor presentations I used to stand up and say things like: "We have the most trafficked site in popular music in Europe." Indeed we had, but could we make money out of it? With great difficulty, because they could not produce enough advertising revenue. We had some small successes with recruitment and in marriage broking between companies or people with ideas and potential investors. However, we could not really make these portal sites viable. Now they have merged with others. For example, in the United States we are in the process of putting all our high-tech sites together with other people and I suspect that we shall end up with just one or two. There seems to be room for just one or two in each market-place.

Our third application was in e-commerce sites and there we really lost a lot of money. The 0.000125%



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just did not turn up. In the US paper and pulp market we were ranked as number three. There was another company, which was at one point capitalised – I never quite knew why – at \$3 billion and which was apparently going to do well. In reality, it did very little business. It found that, without industry sponsorship, without the industry itself buying into and being part of the market-place, the response was: "What's the benefit of trading there?"

So what did we do? We watched this other company go up to \$3 billion and come down to nothing. It has closed. We wised up to the fact that we needed actual industry partners, who had real services to offer and real transactions they wanted to do and quite liked the information services that we could wrap round it all. We have done that in the paper industry and in the film and television industry, where we effectively linked up with well-established companies that were already being used by film production businesses. In this context, the film production industry is an interesting little example. It is a *project* business. Every film is a new project, starting afresh and in need of outsourced services. We found that the most effective way of getting involved was to buy already established accounting companies, already established companies that worked out residuals, already established companies that

knew where producers and line assistants were and how to call them up at a moment's notice. With both paper and pulp and film and television (which is based in Hollywood), we made our operations work by teaming up with already established providers and effectively just wrapping round some IT. We took an existing customer service, which people already knew and loved, and simply moved it one stage further.

The lesson here is that in many markets there are well established ways of doing things and that sometimes new technology and business ideas take time to gel. People are slow to change the habits that they have built up over a long time. That is a dimension that we did not build into our thinking. There are certainly examples where something new has come along and totally transformed a market; but, mostly, basing the overall package on tried and trusted services has proved to be effective.

Meanwhile, the real heavy spending was the continued investment throughout our group in systems, to ensure that the information flows were really working. We did not shout about it, but putting a lot of that £100 million into data capture and data management has proved to be what has changed our business most and given us the opportunity to improve it in a number of different ways.

So what is the balance here for the last two years? We have owned up to the fact that quite a lot of the money invested is probably lost. Fortunately, we have managed to sell one or two of our portals and, if we hold on to the shares that we got in exchange for them and if those shares ever recover from their current levels, then we might just about wash our face. The failures have either been closed down or sold off to somebody who can make better sense of them, usually by aggregation. Ignoring the cost of capital and the opportunity cost, we might just about get our money back.



We are left with a lot of publication and service sites, which were set up separately but which were related to particular publications or services. These we have reintegrated. Now, if you are the editor of *Information Week*, or if you are one of our health care consultants in the United States, using market research to provide information to the pharmaceutical industry, you effectively run all channels. You run the print channel, the online channel and, importantly, you are now beginning to run the new broadband channel. We have reversed our original position, which was based on the idea of separate, stand alone new business, which needed all kinds of new exciting people. Of course, we have retained some of the people with the new IT and marketing skills and with the "vision", but they are now part of the editorial and product development team associated with the original core business, because that is where the basic business relationship and understanding of the market lies. Effectively, we have integrated the online with other channels.

We have also learned (and learned to love the fact) that this is the most wonderful low-cost distribution channel. It is interactive, which is extremely valuable for a business like ours that is constantly collecting information, sending out messages and then wanting to find out what people think about them, ie market research. All of our businesses now use the Internet to distribute their information. *PR Newswire* distributes about 1,000 press releases a day in the US. In a way, it was an original online business, set up in 1953 as a wire service. As each wave of new technology has come through, it has grabbed it: first the fax, then online, and now broadband (which is point-to-point and inexpensive). Broadband does not yet quite work in some ways, because there is no proof of receipt for earnings' announcements that satisfies the US Securities and Exchange Commission. But the technology will shortly cope with that requirement.

With the capital markets, *PR Newswire* is in the business of getting information out to investors around the world. The Internet has helped that business to grow – at about 30% per annum and with great margins. The fear that someone else would come and eat our lunch by putting all these press releases on the Internet for nothing has not materialised. Why? Because we "own" the customers. As with the Internet, the service is free to the user, but the customers pay us to pump their messages out. Then we made a smart addition. *e-watch* is an internet clipping company, with a software development whereby a word or a phrase put into the system will throw up all related mentions. *e-watch* tried to exploit its development but failed. We put it through our distribution network, with 40,000 customers, and it is now selling nicely. That is one of three or four examples of how we have kept our eyes open for new ideas and products that are IT based, which we can then sell through our distribution network.

The interactive side is also important for us. *PR Newswire* puts out press releases. What people who put out a press release want to know is who has read it; what did they think about it; what did they write about it; and what did they do about it. We use the Internet to help us to provide that feedback to customers. This has greatly enhanced our service and has developed a number of new revenue streams.

In market research, the most single important change brought about by the new technology is that we can increasingly sit directly on platforms in certain sectors. Let us take the US health care market, where we are the leading market research company. We have a panel of 35,000 doctors in the US, who provide us with information. In the past, they used to write this out once a month and we used to give them a game of golf in return, or a weekend in Hawaii, if they were really helpful. They would tell us what they

diagnosed, what they prescribed and give us the life cycle of a particular patient. It was a laborious, but very valuable, service for us and vital to the pharmaceutical companies to whom we sold the information. Today, we sit on the proprietary software system inside the doctor's surgery and, obviously on an anonymous basis and with the doctor's approval, are able to collect information that: a) gives us far more detail; b) provides a much bigger sample; c) does not waste a busy doctor's time; and c) still lets him go to Hawaii. Sitting on these platforms (and there are similar ones in a number of different professions) is helping us to create far richer databases, which are transforming their industries. It also reduces significantly the cost of collecting high quality data, the more so as the population with Internet access increases.

Customer relations' management has probably been one of the most significant areas of advance. We now know much more about our customers. We can find out what people think and what they like, making it possible to manage the customer and the customer relationship more effectively. This relates to the single most transforming thing that the Internet brings to our business. It is the ability to collect and manage data in vast quantities and to provide it to people when they need it and in the form that they can understand and use.

That takes us up to the present. Here are a few insights from that experience. First, for a number of reasons, the barriers to entry are much higher than you might think. Established companies have customer relationships which, if they have been nurtured, represent a very real barrier to a new service. Secondly, the smarter established companies keep an eye on what others are up to and replicate it. In this way, we have teamed up with new entrants and their new ideas. They come up with a good idea and give us a license (perhaps related to revenue). If it works for us



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when we put it through our marketing and sales network, we are happy and they make more money than if they went it alone. That represents a significant change from two years ago, when there was lots of venture capital money around for anyone wanting to start up.

It is clear, however, that a number of important new businesses have been created. Amazon is not yet cash flow positive, but it is heading that way. E-bay and Yahoo are sizeable businesses, which have been created in a very short period of time. That all points to the fact that, if you get in first with a good idea, are really brave and have got tons of capital, you can create a winner.

What have these last two years done to jobs? In the first phase, we took on a lot of people. Now, after closures and re-integration, the job gains have been relatively modest and have probably been offset by job losses created in other areas by increased efficiency. Looking at our group (and the same is true of many other media companies), we have lost jobs overall, but have gained new types of higher value jobs. The hope is that the overall improvement in economic activity will create other jobs in other parts of the economy.

One of the crucial factors leading to net job losses for us is the way in

which the new access to information has changed the way that we run the group. It has reduced the need for a lot of supervisory management, who were spending their time collecting that information and presenting it to the right people in the right way. The filter between the CEO of a particular business unit and the people who are creating or selling the product now needs very few people. In fact, the relationship can almost be a direct link. The CEO of one very large British company told me recently that he now gets information directly, which three years ago had been filtered to him through three people.

This de-layering of the supervisory function means that the business head is now effectively more concerned about product development, marketing and strategy. Meanwhile, the people who are running the business have far more delegated authority, which is terrific in terms of job satisfaction in the workplace. The threat, however, to people with established middle management jobs is significant, creating a very real problem in terms of business culture that needs to be addressed.

A related cultural problem is that home working in our group has now gone up to around 40 or 50%. We "hot desk" in a lot of our businesses, plugging people in so that they can work from home for two or three days of the week. This has proved to be good in terms of job retention and recruitment of people, who otherwise would not have joined us. This access to a much wider population has been a considerable benefit to the group.

There has also been a change in the way businesses operate. I was brought up to think of business as a very competitive activity. It still is, but we are now having to learn far more about co-operation and partnerships. In addition to working with people who come up with smart ideas, we are also having to learn how to work in partnerships, sometimes even with our competitors, because alone we cannot achieve results.

Product innovation is another exciting beneficiary of this information revolution. Lots of new ideas are thrown up, some duff and some viable. In this new world the customer now has now an expectation that there will be a much faster rate of product enhancement and that the products and services that we offer will be constantly reviewed. If you do not meet that challenge, you move backwards. It is not enough to say that you have got another product and might launch it in 18 months time. Constant improvement, constant recalibration of existing products is now expected and essential. This promoted innovation is very much to the benefit of the consumer.

Looking back over the past two years, we saw a South Sea Bubble of investment, often inflated by whim and hope rather than clear-sighted analysis. It has produced a vast increase in the capacity to produce hardware and software to meet the Internet-related demand. That bubble burst some time in the middle of last year and is now having a serious downward effect on the US economy. I think that those who believe that the UK and the European economies are going to be untouched by this are wrong.

So the revolution of which we speak, with its great benefits and its successes and failures, is going to pale compared with the real damage that the unjustified exuberance has done to the market place. This exuberance was the unanticipated consequence of the combination of an exciting new technology and free capital, with greed very much winning out over fear. There is quite a lot of clearing up to be done and this is certainly having a pretty nasty impact on a number of parts of our business. But I hope that this phase will be relatively short lived. We are certainly a lot wiser about what works and what does not.

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