

“Global Changes in Content Usage and Sourcing”

The global marketplace has gone through some major changes during the last several years. These changes have been varied with different levels of impact depending upon a firms’ market sector or geographic location. While many have tried, it is difficult to measure the impact. But one thing is certain, everyone has been affected. At the highest level we have suffered a serious decline in the global economy. Across the board we have also felt a significant shock to individual companies and their employees.

Impact on Content Usage and Sourcing

Information, content and data usage (data) has been equally impacted by these global events. This includes the amount of data being purchased, the source of the money and how the data is used.

At the risk of being naïve, we need to ask what has changed, and specifically, how has that affected the usage and sourcing of data. At the broadest level it can be stated that the marketplace has imploded. Companies have lost revenues, have been forced to merge with other companies to survive or have closed their doors. All of these changes have influenced how companies use and source data.

So what is the impact, what is the common denominator that has resulted in a change in data usage and sourcing? What is senior management looking at? Is it all about budgets, cost controls and funding levels? What is required to keep a company solvent and which expenses can be reduced or eliminated? All of this has had a material effect on the mix of data being used.

The severity of the situation has had a dynamic effect on data supplier and user relationships. Data users are being forced to reduce their consumption by virtue of staff downsizing, senior management mandates or other factors. Data suppliers, who need to maintain a current book of revenue, are being asked to reduce costs for the benefit of long term client relationships. Not all parties understand the severity of the issue and thus do not see these risks or benefits in the same way.

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How bad has it been?

Now that we have a better understanding of the consequences both for data users and suppliers, the next logical question is, how bad has it been? Companies have lost revenues, have laid off staff and, in more cases than we care to accept, have consolidated by either materially reorganizing or by closing their doors. The overall consequence is that there is less money in the budget available for data. Some might argue that current economic events should result in the need for additional data, to be used as a tool to regenerate the business model of the company. While this is conceptually accurate, it runs contrary to the financial decision to contain costs.

Further, companies are taking a serious look at what is critical versus that which is required to sustain their business model. What is a “must have” and what is “good” or “nice to have” but can be done without? Unfortunately we have noticed that data has increasingly become a victim of the “nice to have” concept and thus is a candidate for reduction. It should be noted that in a majority of cases senior management understands the value and importance of data. However, the question is how that value is perceived relative to other critical components that are required for the firm.

Our firm, as part of our market data consulting practice, has been involved with a number of global companies who have asked us to review their data usage and expenditures. Some of the common themes we have worked on along with changes we have been involved with, tell us the following:

1. There has been a reduction in the number of employees who require data.
2. There has been a remix of the number of information products that are being made available to end users. Focus is on critical requirements. Data products are being removed or minimized.
3. There is an increase in senior managements’ oversight on data usage and expenditures.
4. Cost reduction mandates are being set for data, similar to other major expense items.
5. Data suppliers are being asked to participate, share in the pain as part of this process.
6. There are new contracts and pricing models in the market place that reflect the current situation.

How serious are companies about Data Expenditure Reduction?

It is important to set the events of the past year and current thinking apart from what has happened in the past. In recent years, as the level of expenditure on data has risen, there has been an increased level of management oversight. Most companies, as part of ongoing cost measurement projects, have looked at data expenditures and have set objectives to reduce the levels. The approach to these projects was varied; some had clear cost reduction targets; others were meant to review potential opportunities. Generally, at the end of the exercise, it came down to a decision between business requirements and cost saving goals. Many of these past projects did not result in material changes in data usage and sourcing.

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The current business climate is different. One of our clients, a global Professional Services firm who had Board level mandates for cost reduction, told their senior managers that they had to decide between reducing people and reducing current data sources. These are serious decisions, the outcome of which generally favors retaining staff levels. In this case, the client ended up with a mix of cuts for staff and data sources, including remixing and downsizing data sourcing. At some of our clients, particularly Financial Services firms, data costs can be the second or third largest expense items after staffing and IT costs. Given the magnitude of this expense firms are making much tougher decisions about data spend levels.

One of the obstacles in data cost reduction efforts in prior years is user loyalty for specific products and a perception that the product is a requirement for job performance. This is a key point because at the end of the exercise this often becomes a factor in keeping a product that is in reality less critical. Given the current marketplace, this attitude is changing.

We are definitely seeing a change in corporate culture as to what must be given to end users to do their job. As previously noted, the measure is a “must have” versus a “nice to have”. Lately, the term “**good enough**” is becoming the acceptable measure. It should be noted that this situation applies to some major global clients. Companies are reducing services that are given to employees. Employees are accepting this as part of the current business environment where everyone has to make do with less.

Who is in charge?

Another factor that is resulting in changes in data usage and sourcing is “who is in charge”. During the past five to seven years there has been a growing trend to move the management of data away from traditional groups such as Information and Research Groups to central sourcing functions. Typically central sourcing has been successful in reducing costs for items such as office supplies, travel and furniture which can be purchased solely on volume and best price models. However, the question is whether general sourcing professionals really understand the role that data plays in the business process of the company.

There are various points of view and arguments to support both sides of this trend. But, as mentioned earlier, there has been an increase in oversight on the part of senior management, based on keener awareness of the expenditures on data, to better control the process of sourcing data and reducing costs. Thus in most global firms this has changed. With the introduction of data sourcing professionals we have seen new and different approaches to sourcing including a consolidation of suppliers, remixing of products and services and new contract and pricing models. It can clearly be stated that this trend is here to stay and will only be increased during the next couple of years.

Vendor and supplier reaction

One of the key questions in this discussion is how these suppliers have reacted to all of these issues? There is no clear answer to this and there has not been a single response that covers the majority of suppliers. Suppliers are running a business and have the objective to maintain and increase their revenue. But, they are being pushed by their clients to renegotiate and rethink their contracts and associated rate cards. One of the key factors is the criticality of the data source. If the product is vital for their client's business process, or, if they are the only source for the data, the supplier can and will be firm on their pricing and usage models. If however, the data is not mandatory, or the supplier is an aggregator and the data is thus available elsewhere, then the supplier will have no choice but to renegotiate.

Most senior sales executives that we work with tell us that 2009 through 2012 were difficult years. They are being asked to break contracts midterm to reflect either a decrease in usage or simply due to a decrease in their clients' actual budget. It often comes down to doing what is required for the short term to maintain the long-term relationship. Most suppliers have accepted this and have adjusted their pricing models to reflect current market conditions. A minority, particularly those who are critical to their clients, have held firm on their pricing models (some have even increased costs). Of these, several are losing some revenue based on reduced usage levels.

Global impact

Someone recently asked me if I thought the impact and changes in usage and sourcing data was global, has everyone been impacted across industry sectors and regions. The answer is yes, with some caveats.

Everyone has been impacted at some level. Almost every company has lost revenue, which has resulted in efforts to contain and reduce costs in any way possible. Some industries have been impacted more than others. Two examples of those who have been impacted less are legal firms who continue to use the same level of data, and consulting firms who generally have a knowledge sharing culture that includes giving their employees data as a part of the cost of doing business. **On the other hand, the financial services sectors have taken a cut and slash approach, reducing both the number of users and the quantity of services.**

The same can be said for geographical regions. Our experience over the past 18 months is that US companies have taken a tough stand on cost containment. That is not to say that companies in the UK/Europe and Asia have not been as serious about cost containment, but they have been less adamant about forcing changes and reductions in product offerings.

A senior executive in a UK-based bank told me that while reducing information tools to their employees would result in cost reductions it would also diminish the quality of their marketplace offering. Thus the short-term benefit of cost reduction was less important than the long term value of being perceived as an industry leader with premium products. His U.S. counterpart would probably not feel be given that option.

Is the end in sight?

Anyone who watches the Sunday morning news and talk shows will tell you that there is mixed opinions on when the end of the recession will come. But, there is a growing belief that we have hit bottom and that economic indicators point to a recovery. The question is will the investment in data return to the same levels before the recession or will there be an ongoing focus on data usage cutbacks and cost reduction.

Like everything else discussed in this article, there is no fixed answer. Most companies are well into the process of setting 2014 budgets. Some of our clients, who have already reduced data costs by as much as 25% during previous years, have set further cost reductions goals for the future. Others tell us that their objective is to keep their current and future data cost levels flat. No one has told us that they plan to repurchase the products and services that were reduced or eliminated during the past few years.

Business factors such as the increase of sales levels and rehiring of staff will result in a rise in usage levels which, in turn will create a boost in the spend level with suppliers. The majority of this increase will occur in 2014 contracts with data suppliers.

Short and long term effect

Accepting that current year will bring an improved economy, the question to ask is, “will that also result in changes in how data is both used and sourced?” What have we learned from the events of the past few years? If there is a reduced focus on cost containment and reduction will companies revert back to the data usage patterns of the past? Will recent changes in company cultures on required versus nice to have data remain in place or will the new data requirements of the business result in an expansion in the usage of services?

Will the suppliers who have been forced to make product pricing and contract negotiation concessions be able to go back to their old rate cards and pricing models? Will the suppliers be able to survive if the current conditions become their long-term business model?

A majority of our clients have taken a serious look at how they use and source data. This was initiated by the recession and a new increased awareness in the level of investment that companies are making in data. Most companies have reduced their spent on information in the range of 10% to 20%. Some have further reduction goals for the future and have included this in current budget discussions.

Companies will continue to use data sources that are business critical but will not revert back to offering their users several alternative sources for the same data sets. **Data users have learned to work with less; they have accepted the “good enough” concept.** There has been a shift in how data sourcing is managed; it has become more professional with staff that has an expertise in demand management and cost optimization for data specifically.

During the past 10 to 15 years we have learned to live with a number of changes in how we conduct our business lives including outsourcing to offshore locations and assuming a wider range of responsibilities due to staff downsizing. Nobody has liked it yet everyone has learned to live with it. Changes in information, data and content usage and sourcing are very much the same; we will all learn to live with it.

Our conclusion, based on engagements we have performed for global clients, is that a good number of the changes are here to stay. The mold has been broken and a revived economy will not result in going back to the old ways. The marketplace has learned their lesson.

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