Day to Day Realities and Myths Regarding Financial Research Using Open Sources

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As the moderator mentioned, I am the director of the Corporate Information Center for Markowitz and McNaughton, Inc., also known as MMI. MMI specializes in market research and competitive analysis. Many of our clients are in the Fortune 50.

In my position there I direct and conduct what is referred to as secondary source research. This primarily refers to research that is conducted via traditional library methods with books, directories and periodicals, and of course data bases, electronic, online or otherwise, to include our own internally generated information. Most of the employees at MMI, however, are involved in what is referred to a primary research, field research conducted in person or over the telephone. The company specializes in the synthesis and analysis of information collected from these methods. Together this covers the spectrum of what you know as open source research.

When Robert suggested the topic of "myths and realities of collecting financial information" I had to think for quite a while as to whether or not the myths and realities of financial open source research were substantially different than those surrounding any other area of research. I concluded that while methods and sources may vary, the important day to day myths and realities are the same for essentially all open source research. This therefore may be more general than the title suggests.

First, I'll address the myths.

When considering misconceptions about what I do, the first and most amusing thing that comes to mind is the notion that there are, somewhere out there in the ether, a lot of confidential data bases that people like me can legally access while no one else can. I am asked nearly every work day, by the neophyte business researcher to the well seasoned business executive, if I can recommend one of those "secret data bases" to help them with their current business decision. It's as if people actually believe that the cash flow statements and strategic marketing plans for the private companies of the world have been secretly gathered and are being distributed via an easily accessible, but little known web site somewhere. This would be equivalent to and as nearly unlikely as finding a public web site or data base where Saddam Hussein outlines the plans for his next military operation.

This myth is largely harmless and amusing. I find it somewhat flattering that my business associates would credit me with somehow being able to find and connect to data bases that no one else has been able to locate or exploit. It speaks largely to peoples' misunderstandings about information technology, publishing practices and reporting requirements for various industries, as well as the hype that sometimes comes with life and business in the Information Age. These same misunderstandings generate some more serious myths.

The myths, really it's sort of one big myth, go something like this: *...that in the current era the answer to virtually any question is available through one of the many commercial or free data bases, and these answers can be gathered for free or for a nominal fee, and with absolutely no training or previous experience anyone can find those answers in under ten minutes. If you can turn on the computer and cause your modem to dial into the proper data base, the answer you desire is there.* The direct implication for this is that the need for analysis and the analyst, the human factor, is dramatically lessened or perhaps has become completely obsolete.

What then are the realities?

The reality is that at least as far as business intelligence goes, a lot more is probably possible using open sources, the combination of prime sources and secondary sources, than is impossible. There are many companies like mine and the competitive analysis business is growing. The demand for value-added research continues. According to Euromonitor, the U.S. spent $3.4 billion dollars for market research in 1995. The same report predicts that this will nearly double by the year 2000.

Considering only electronic information and data, the sheer quantity of information available is problematic. The number of electronic data bases is growing at an almost exponential rate. In early 1996, the Dialog on-line system claimed more than 330 million records, spread across 500 different data bases, collected from more than 10,000 sources. Lexis-Nexis also boasts over 10,000 sources. On the plus side, this means that any organization or individual with enough money for an account to one of these systems, can have access to a collection of knowledge larger than all but a handful of libraries in the world, giving even the smallest organizations advantages undrempt of until recent years.

The down side surrounding this plethora of information is that these systems are not necessarily easy to use or manage. There are numerous stories describing the business executive who accidently spends $2,000 to look at his companies most current stock price. Also consider that these systems are not necessarily interchangeable. There is no one electronic service that will meet all the needs of a serious research department. Just as multiple books or journals were required in the past, multiple on-line services are now required. My department currently subscribes to 4 different large, commercial online systems and I hope to add additional ones in the coming year. While there is some overlap among these systems, they each offer unique sources, demanding that the professional researcher learn to use several different systems and be familiar enough with the content of the systems to make a decision about which one to use for any given task.

For some reason people are still shocked by this. There is a misconception that libraries have always been easy to use. While books or journals may be easy to use for the literate, libraries have always been complex systems. It is no different for their electronic counter parts. I think that we tend to forget the hours spent in grade school or high school learning the dewy decibel system and the card catalog; or the enormously helpful knowledge and expertise of the local librarians who helped us navigate what would have otherwise been a maze. To exemplify this, I like to ask people to consider the extreme example of the Library of Congress. Living and working in the Washington area, I have visited this institution on several occasions. I have never once done so without becoming lost and without requiring considerable help from the reference librarians there. Considering that I know more about libraries than the average person, perhaps I should be somewhat hesitant to admit this, but I can tell I would rather take my chances with Lexis-Nexis or Dialog any day.

The sheer volume of information available, while making the job more productive, also makes it more difficult. The task of scanning the horizon for new data bases, online service providers, interesting web sites and validating these sources, all the while keeping up to date with the applicable technology is a full-time job. Add to this the fact that most of the world's published information is still not available in electronic format and must be scanned the old fashioned way and the job, when done correctly, is enormously complex.

Another sometimes rude reality for many is the reminder that information is a commodity. People expect to be paid for it and they are. According to Euromonitor the total U.S. market for Electronic Information Services, including on-line systems, CD-ROMS and all other electronic data bases in 1995 was $15 billion dollars. I personally spend over $10,000 per month for professional on-line charges. Some of the most popular data bases cost over $200 per hour, before you print a single document. Just as some of the most valuable hard copy journals have subscription prices exceeding $2,000 per year.

In one of my recent projects I ran across a new market study for the World Soft Drink Industry, also published by Euromonitor. It is a high quality, value added report which most likely contains nearly all relevant information pertaining to the world's soft drink industry. It is available to anyone who wants it, assuming they have $13,000.

So far I have only addressed information and data available through published means, electronic or otherwise. With all this information it's easy to begin to believe that there is little need for additional analysis or analysts or original research. But to quote Cliff Stoll's latest book, *Silicon Snake Oil*, "No online database can answer the tough questions....those which do not yet have answers." Mr. Stoll was of course referring to scientific questions to which we may never have answers. Regarding competitive business research, I would like to add the following: Data bases, online or otherwise, are of limited value in answering

those questions which no one else has asked. This is what the professional researcher, in business or national security, deals with much of the time.

This reality is further complicated by the fact that the most crucial and valuable information for your particular task may never make it into print. In the business environment, the knowledge held by industry analysts, trade representatives, business executives or other experts is the most valuable and timely in nature. It is equivalent to the commanders view of the battle field and can not be had by scanning newspapers, journals or books in any medium. Due to its perishable nature, it simply never makes it there. To gain access to these unique sources you must identify the expert you need or an organization that most likely houses the type of expert you need and pick up the phone.

The nature of your task will determine to what extent this is necessary. If you are interested in obtaining an economic overview of Europe or profitability analysis of a huge public multinational company such as Coca-Cola, your task will be comparatively simple and can perhaps be carried out completely within the realm of computer networks or libraries. Millions of other individuals are interested in these very issues and hundreds or maybe even thousands of experts have published information on the topics.

If, however, your task is to study a private company such as Mom and Pop's Automotive Repair Shop in Esterville, Iowa either for competitive purposes or for a possible acquisition, you have to realize that it is quite possible that no one else has ever been interested in this particular target before in the same manner that you are. By way of comparison, consider just a few years back and the huge volumes of data and information, open and classified, available for the Former Soviet Union versus that which was available for the country of Somalia. Comparatively few individuals or organizations were interested in Somalia for any reason and as a result little value-added information, or even raw data for

that matter was available.

Back to Mom and Pop's Automotive Shop, there will of course be data at the local courthouse and tax assessors office and in the local paper. The local Chamber of Commerce may be helpful. If the company has a pension plan there will be a paper trail associated with it. There will be different mandatory and public filings at the state and federal levels. These and many other sources are used by creative business researchers every day. But these systems are rarely automated. Even worse, they are not interconnected. You will have to spend time digging for this data, as well as tracking down the target's customers, suppliers and competitors for first hand information. You can of course get Dun and Bradstreet reports and other credit reports. These will tell you if the company in question is paying it's bills, but any new financial analyst can tell you that this is not the same thing as being profitable. There are plenty of unprofitable companies, like individuals, who pay their bills on time and lots of profitable ones who don't. As I hope you are beginning to see, the process will take much longer than ten minutes.

Now we come to the final and most important reality, the need for analysis and the analyst. Consider the market study I mentioned on the Soft Drink Industry. As I said this study may well contain every important fact and figure concerning the soft drink industry. But, what it will not tell you is whether or not your company should consider entering this market. It will not tell you what strategy to use, nor will it forecast how your organization will fare, should you decide to do so. These answers will require careful analysis by individuals not only with a knowledge of the soft drink industry, but with a knowledge of your organization's particular strengths and weaknesses and the experience and skill to put them together. To borrow from Cliff Stole once again, "a computer will let you explore more options, but it won't often give you the answer."

In closing, let me reiterate the realities of day to day open source information collection for finance or any other area. There is a lot of information and data out there, in the library, on-line, on CD-Roms, in mandatory government and regulatory filings and so on. In addition, there is immeasurable information residing in the offices and minds of various related experts and specialist. Outstanding results can be achieved if you are willing to commit the time and the resources necessary.

These resources are both financial and human. Information is not cheap. The tasks of information collection, research and analysis require quality people in the loop, no matter the industry or the subject matter. These individuals must have, as they always have had, solid educational backgrounds, highly developed analytical skills and creative problem solving abilities. In addition, today's environment demands that they be technically literate to varying degrees, depending on their actual role in the process. Sources regardless of where they are found or in which format they reside, must be validated and corroborated. The data must be synthesized and analyzed. Technology offers limited help in this respect. While technology has changed, sped up and enhanced the process in many respects, answering difficult questions of any nature requires smart people. The final product will only be as good as the individuals involved in the process.

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