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## Will Online Vendors Survive?

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## Will online vendors survive?

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### Abstract:

Online systems such as IAC, DIALOG, LEXIS/NEXIS and others are refocusing their market strategies following major corporation changes in the last year. Critical mass in the number of services, assets, customer size are necessary to compete in the changing, global information world.

### Full Text:

The 1991 Online Information Meeting in London was held just a few days after Robert Maxwell's death by drowning. The folks at the Maxwell Online/ BRS/ORBIT booth struggled to maintain their composure as they handled curiosity seekers and tried to answer questions about the future of their company.

This year's meeting, held the first week in December, occurred soon after M.A.I.D plc (Market Analysis and Information Database) purchased Knight-Ridder Information, Inc. (KRII) and promptly laid off about 25 percent of the KRII and M.A.I.D/Profound employees worldwide. The remaining employees of the renamed DIALOG Corporation would not appreciate any allusions to sinking ships, but the timing did bring back memories of traumatic changes for Maxwell's companies. (The positive message is that all the Maxwell services were sold and still survive.)

It's not new for online systems to experience buyouts, layoffs, and consolidations. Many major online systems (including DIALOG, DataStar, IAC, LEXIS/NEXIS, Westlaw, ORBIT, and BRS) have changed ownership at least once in this decade. But somehow the changes in the last half of 1997--involving KRII (parent of the DIALOG, DataStar, and CARL/UnCover services), NewsNet, and UMI/Data-Times--felt different. Although it is too soon to tell whether this has begun a trend, several of the changes sounded a warning bell.

By the way, the companies' preferred term these days for what we've long called "online vendors" is "data aggregators." Whether we call these intermediaries vendors, online systems, online services, or data aggregators, their third-party function may diminish. The World Wide Web brings authors or publishers and readers directly together, without the intermediary role played by aggregators. If a user can go directly to the Boston Globe web site, some people wonder why they should go through DIALOG or LEXIS/NEXIS and pay their high surcharges--though others recognize the convenience that aggregation brings.

### The demise of NewsNet

Those who doubt the future of traditional online services only have to point to the demise of NewsNet last August. After 15 years as an online provider of full-text newsletters, wire services, and other materials, NewsNet could no longer be profitable. Andrew Elston, founder and president of NewsNet, attributes this at least in part to the web.

Elston reports that as more and more of key NewsNet sources went up "for free" on web sites from the primary information creators, it became difficult to retain paying customers. NewsNet's strength was its many industry-specific newsletters and general news sources. Both types of sources now proliferate on the web--including important telecommunications, electronics, and information industry newsletters. According to Elston ("Vendors Past: Andrew Elston on NewsNet: 'The Canary in the Mine?'" Searcher, November/December 1997), "the thing that hurt the most, in a way the most crippling when you realize its potential impact, was when the Associated Press made its newswires available" on the web.

Musing on the future, Elston speculates that users "don't need a middleman any more. Yes, there is always going to be room for an aggregator. [But] if they aren't adding a substantial amount to the equation, they're going to be cut out."

NewsNet had many features that seemed to augur survival: a collection of full-text newsletters, many of which are available nowhere else in electronic form; an innovative and critically acclaimed graphical user interface (GUI), Baton; a command language option for

experienced users; and identifiable niche markets for both information professionals and corporate end users.

However, NewsNet lacked size. It was a small to medium-sized information aggregator. It lacked a critical mass of customers, employees, and collection size, as well as a large multinational corporate parent. Such smaller companies may be particularly vulnerable to the growth of free web access.

Jeff Galt, executive VP of the DIALOG Corporation, observes that "the mid-sized players are in a tough position" because information aggregators need scale in terms of numbers of customers and in collection size. Also, it costs more to acquire customers and especially to sell and market such products.

These rising costs can be attributed to the increasingly fragmented and international market of the information industry. The cost of marketing primarily to librarians was low, Galt says, since they can be reached through a relatively small number of journals and conferences.

#### UMI/DataTimes & Dow Jones

In September 1996, UMI purchased Oklahoma-based DataTimes, an online service best known for its full-text regional newspapers and its GUI service EyeQ (see "What's New with UMI?," LJ, November 1, 1996, p. 29-30). DataTimes was one of several news sources aimed at the corporate market, one in which, UMI was traditionally weak. Then, UMI asserted, "we will proceed expeditiously but cautiously." But last fall the company announced it would close the DataTimes service at the end of 1997.

At the same time, UMI announced it would focus its online service Pro-Quest Direct solely on the academic, public, and school library markets (see "As the Online World Turns," LJ, November 1, 1997, p. 37-38). An agreement with Dow Jones provides Dow Jones Interactive with much of the UMI ProQuest content, while UMI will load many exclusive Dow Jones offerings. UMI will leave the corporate/special libraries markets to Dow Jones, while Dow Jones will stay away from UMI's traditional arenas. UMI found it difficult to compete in the corporate market, a new market for it. Dow Jones feels at home in the corporate market but not in the academic, public, or school worlds.

This sort of cooperation suggests how difficult it is to enter unfamiliar information markets, while also showing the importance of a critical mass of high-value information. DIALOG's Galt notes that DataTimes, like NewsNet and Individual Inc., are among several companies selling basic news, which has "the lowest value and least differentiated content." Though DIALOG was owned for years by newspaper publisher Knight-Ridder, "news is only 15 percent of our revenue," Galt says--other sources include business information, patents, and sci-tech. Newspapers and other news sources, long the most widely available and least costly sources of information, now abound on the web.

Dow Jones Interactive is often touted as a good example of an information company coping with the future: recognizing its market base, adapting well to the web, and offering flexible pricing. Searcher editor Barbara Quint says she still thinks Dow Jones will survive best of traditional online service providers.

Its success is due in no small part to its being both a primary publisher and an online aggregator. Brand name recognition creates a critical mass of customers willing to pay for familiar names such as the Wall Street Journal and Barron's. The web means more online customers, which in turn means lower prices for everyone. Advertisements in web versions can keep prices even lower.

#### Knight-Ridder Information, Inc.

In November, M.A.I.D completed its purchase of KRII for \$420 million. M.A.I.D immediately went to work reducing costs in order to service its high debt. Approximately 330 employees were laid off on November 12, including nearly 180 in DIALOG's California headquarters.

DIALOG executives put a positive face on the layoffs. M.A.I.D's online service Profound has been more regionally oriented than KRII's DIALOG, DataStar, and CARL/UnCover services, and the new DIALOG Corporation will have additional regional offices, including new ones in Atlanta and Cleveland. If you have dealt with a KRII regional representative in the past, that same person likely will be serving you. According to Galt (whose title changed from president of KRII to executive VP of the DIALOG Corporation), more than half of the regional offices are managed by former KRII employees. Contrary to early rumors, Galt says the Berne, Switzerland, office will not close, although DataStar computer operations may be moved from Berne to the California home of DIALOG.

It "is highly likely" that CARL/UnCover will be sold, Galt says, stressing that DIALOG expects to maintain a strong relationship with the new owner. "DIALOG@CARL has had success, and we want to continue to offer that," he says, noting it will be "distributed to the academic and public library market through people focused on those markets." In contrast to CARL, DIALOG's other major services (DIALOG, DataStar, and Profound) are strongest in the corporate and research library markets.

Galt firmly believes that "the future is in web products," although the company will continue to support "classic" (command) DIALOG and DataStar. DIALOGWeb, the web product aimed at information professionals, has had rapid acceptance from existing users and will be continually enhanced. Another release is scheduled for this spring.

Databases will be added regularly, as the company aims to maintain the critical mass of a huge collection of "harder to find" information resources. Galt points to the addition of the French patent database--heretofore an exclusive database on the ORBIT/QUESTEL online system--to DIALOG this year,

For end users, DIALOG will be emphasizing its Intranet product (DIALOG@SITE) and web products such as DIALOG Select and Profound. Subscribers to Profound will gain access to the 250 databases available to DIALOG Select users. Live Wire, a new push service, will place filtered information from Profound or DIALOG on corporate desktop workstations.

#### The message of markets

The changes last year all suggest that information aggregators must know their best markets and stick to them. This shouldn't surprise anyone in the business world, but over the years it has been a painful and hard-to-learn lesson for information companies. DIALOG won't try to enter the consumer market, because, as Galt realizes, "it is a distinct market and other companies are geared better for that market." He notes that Individual Inc.'s NewsPage service "has struggled in the consumer market" and has recently merged with Desktop Data, Inc. to form NewsEDGE Corporation. DIALOG will focus on the professional market, dominated by corporations, and will continue to "sell information rather than advertising."

As with the data aggregators, small users may have to adapt the most to marketplace changes. Companies that market to libraries are shifting to subscription prices, necessitating consortial purchases for the best deals. Galt says DIALOG's large accounts are growing but its smaller ones are not: "Smaller (infrequent) users may be able to find web alternatives, but for larger companies there are definite benefits in contracting with a vendor who can bundle large amounts of information." Larger companies benefit the most from high-volume discounts offered by online vendors.

Will online vendors survive? Many will but certainly in new configurations and often with new owners. The information industry is truly global, now dominated by international companies. To compete in aging information world, companies may now need critical mass in collection size, customer size, number of services, and assets.

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