Research as a Service: Ripe and Ready for Prime Time

Research consumed as a service will be the new digital-era application-programming interface that can help companies connect better with their customers.
**Executive Summary**

In an increasingly volatile and information-efficient world, it is imperative for companies to analyze and understand events that shape their businesses on a real-time basis. Suffice it to say, companies across industries today consume a range of research inputs — financial, market, industry and economic — to understand issues and support executive decisions.

Empirical evidence suggests that the research-service buyers have cleaved the market into a wholesale market of “well-heeled and well-served” buyers that typically comprise large buy-and-sell-side financial services firms and a highly fragmented set of “well-heeled, but underserved” buyers such as boutique private equity (PE) firms, venture capital (VC) firms, hedge funds and various corporate functions within companies.

While the demand for research services is ubiquitous, the varying character and composition of research requirements illuminate unevenly distributed patterns of demand and consumption. Further analysis reveals a compelling business case to offer and consume research as a service.

By research as a service (RaaS), we mean the ability to:

- Deliver research services through a range of models — from traditional full-time-equivalent (FTE)-based to “pay per use.”
- Marry traditional and emerging IT services and standard research capabilities to offer scalable and cost-efficient solutions.

The urgency for such services is palpable. Already, a combination of forces — regulations, crimped profitability and technology evolution — is forcing traditional wholesale buyers of research services to look beyond established conventions to minimize and variabilize cost. At the same time, the large body of underserved and highly fragmented research service buyers offer an opportunity for service providers to architect high-quality, relevant and timely research services in variable pricing models. Organizations can use the RaaS primary value propositions — scalability, flexibility and cost-effectiveness — to negate volatility in market conditions and business performance.

**Forces Affecting Research-Centric Businesses**

Research-centric businesses such as investment banking and publishing organizations are heading toward less profitable growth and tough business conditions (see Figure 1). The confluence of tight regulations, heightened competition and lack of the organizational wherewithal to utilize technology to improve the quality of research is undercutting profitability and return on equity. In our view, the time is ripe for organizations to consider the potential of the RaaS model to improve profitability and time-to-market and to acquire an edge over the competition.

**Research Demand: Ubiquitous, Diverse and Unevenly Distributed**

The demand for research services is nearly similar across many industries. What varies is the character and composition of research needs;

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**Shrinking Margins**

Source: Cognizant Research Center

Figure 1
both demand and consumption are unevenly distributed. Based on these criteria, the market for traditional research services can be categorized into two broad segments:

- The well-heeled and well-served segment comprising large buy-side and sell-side firms, as well as investment banks.
- The well-heeled but underserved segment comprising private equity firms, hedge funds, venture capital firms and corporate functions such as marketing, sales, HR and IT of companies across industries.

These segments can be understood better by looking at the nature of their research requirements and how well they are currently served (see Figure 2). The first segment largely deals with capital markets research, which is more complex in nature and requires high-end research capabilities. This segment is relatively well-served by research service vendors. Publishing companies and information aggregators – with most of their research requirements being less complex than the needs of capital markets firms – are also well-served by vendors.

The second segment consists of boutique firms such as PE organizations, hedge funds and venture capitalists whose research requirements are extremely complex. This segment is relatively underserved by vendors. Corporate functions, which include sales, IT, HR and marketing divisions, have relatively lower complexity of research requirements and are not well-served by vendors.

**Research Supply: Ready to Address Unevenly Distributed Demand**

The quantum nature of research consumption is an important factor in identifying a suitable service model (see Figure 3, next page).

**FTE staffing model:** Large capital market firms are scale players with varying volumes of research requirements. They plan research calendars, timetables and well-defined areas to be covered. The traditional FTE model with full-time research analysts suits these organizations, as they have a fixed demand stream of complex and high-volume research needs.

**Managed service model:** Publishing organizations and information aggregators also have a planned timetable for defined products with fixed volumes. A managed-service, volume-based model suits these organizations best.

**Pay-per-use model:** Notwithstanding their planned coverage areas, boutique firms have research needs that are highly specialized and lack scale. Corporate functions are also lacking in scale of research volumes and have unevenly distributed demand patterns that require on-demand research support to fit tight deadlines. Lacking
scale and with highly ad hoc research requirements, a pay-per-use model that charges for each research request suits boutiques and corporate functions.

**The RaaS Core Value Proposition**

The gold standard for RaaS is the minimum amount of services delivered through pay-per-use and managed services models. Figure 4 (next page) illustrates how a bouquet of sell-side research services over time can be simplified and standardized and delivered flexibly and cost-efficiently through a range of operating models.

Research service buyers can optimize their research costs and convert them from a fixed-cost structure to a variable-cost structure based on their most pressing research needs.

- **Given the fixed volume and periodic updates, the managed services model is ideally suited to basic maintenance work.** This include basic tasks such as news tracking and retrieval, database maintenance, valuation updates and ad hoc data gathering and basic analysis such as political economic social technological analysis (PESTLE), strengths, weaknesses, opportunities and threats (SWOT) analysis, creating company profiles, model updates and updating historical data.

- **Research buyers can opt for a pay-per-use model for research requirements that are specialized but are ad hoc in nature.** Research needs of corporate functions and deliverables with medium complexity (econometric modeling, earnings preview notes, earnings review notes, financial projections, new product designs) are well-served using this model.

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- **The FTE-based model suits firms with defined research products that are complex in nature (i.e., company/country reports, report writing/initiating coverage, trading ideas, trader/client calls, etc.) and require significant value-added and dedicated resources.

- **Going a step ahead, firms with limited time and resources to invest in new product development can partner with mature research providers who can coinvest with them to conceptualize new product ideas to create innovative products for customers and generate incremental revenue.**

**Technology: The RaaS Differentiator**

The distinct nature of research services, requiring deep domain knowledge, is predicated on a wide range of IT applications to underwrite the quality and efficiency of analyst output. This intersection between the domain knowledge (human) and technology application (IT) offers material opportunity for RaaS providers to optimize service effectiveness and efficiency. When evolved best, RaaS providers can provide an on-demand, transaction-
al, utility-like service model by marrying research, analytics, IT applications and an enabling infrastructure that are owned by a service provider. This arrangement transfers the risks and costs associated with ownership from the consumer to the provider of research (see Figure 5, next page).

Figure 5 illustrates how research service providers can, over time, unbundle IT service components underpinning the core research services and deliver them as a service. However, to provide RaaS, research vendors need to have strong IT, business process capabilities, access to skilled talent and the scale to accommodate fluctuations in demand for research services.

Research as a Service: Success Prerequisites

Leading RaaS providers will need to exhibit the following attributes:

- **Willingness to experiment**: The RaaS model requires a mature relationship between provider and client that affords each partner the freedom and space to pilot variations on the RaaS theme. The provider and client need to be on a strong footing in terms of their understanding about how the RaaS model works. It works smoothly only when requirements from each are crystal-clear. Also, both sides must have a strong and established relationship with high levels of confidence, credibility and mutual respect for each other’s capabilities.
Offering Research Underpinned by Human and IT Elements as a Service

Figure 5

Source: Cognizant Research Center

“As a Service”

<table>
<thead>
<tr>
<th>Pay Per Use</th>
<th>Variable Cost</th>
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<td>Fixed Cost</td>
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- Ability to operate at scale: While core research capabilities are a necessary condition for vendors to offer the RaaS model, having sufficient headroom to grow and expand capability is essential. Scale allows service providers to handle volatilities arising out of varying demand patterns from research service buyers. Scale permits vendors to optimize investments in technology, talent and infrastructure, not to mention providing a buffer to withstand demand volatility.

For consumers of research services, the following is essential:

- A virtual mindset: The customer must be comfortable taking a hands-off approach to ownership of people, processes and technology, leaving these elements to a trusted provider. An ideal way to start testing the RaaS model is on a pilot basis in areas where the consumer of research services has sufficient confidence in the capabilities of the provider and trust in its ability to meet business needs today and tomorrow and to meet or exceed expectations. As the risk in this model is borne mostly by the provider, organizations that consume research services should carefully evaluate service provider capabilities to deploy the RaaS model.

The Road Ahead

The varying research needs and maturity levels of buyers require service providers to target and offer customized services accordingly. The treasure trove of data generated by social media and connected devices is creating a big data challenge for B2B and B2C companies that want to better understand their customers. They do not have the technological wherewithal, skills and talent to do this, thus forcing them to look outside for assistance, a lament increasingly heard by industry insiders.

Organizations can procure such services from mature service providers that have developed strong capabilities in utilizing both structured and unstructured data to offer custom research insights to complement more mainstream structured data analysis (see Figure 7 on Page 8).

Organizations planning to use the RaaS model need to ensure that their vendors have proven
How Research Service Providers Use Technology

Research operations of service providers continuously matured by embracing increasingly sophisticated technology and their own homegrown ability to marry technology with research. Many are deploying homegrown, proprietary processes that employ technologies to automate, reduce errors and increase efficiency and quality of research operations. They are utilizing tools such as Web crawlers, workflow management systems, mobile apps and knowledge management platforms to increase their operational efficiency (see Figure 6).

How Technology Can Improve the Effectiveness and Efficiency of the Research Value Chain

Source: Cognizant Research Center
Figure 6
Providing Rich Insights Using Structured and Unstructured Data to Help Professionals Make Smart Decisions

Consider the case of Bill Thomson, a 32-year-old professional working as a trader at a large financial institution and tracking the oil and gas sector. Bill's activities - such as his Tweets, the news he follows, topics of his interest, the books he buys, videos and documentaries he watches related to the oil and gas sector - are tracked. Customized and timely insights, utilizing the structured and unstructured data gathered from the tracked sources, can then be generated and delivered - which he can use to make smart decisions.

**Bill's Activities**
- Tweets on new technology advancements in shale oil industry.
- Tracks news on Putin: Russia has right to use force in Ukraine – oil prices slip as Ukraine crises cause jitters.
- Reads a research paper on latest shale oil extraction.
- Follows latestnews related to oil stocks in the portfolio and their earning releases schedules.
- Searches for and buys books, watches videos/documentaries to understand new developments in the shale oil industry.

**Insights Generated**
- Stock prices for BP and Marathon Oil are expected to fall exposing William to a higher risk.
- From his trading patterns and portfolio composition, he is long on BP and Marathon Oil and he needs to diversify into shale oil related stocks.
- Weekly updates on the Ukraine crisis and related analytics on oil price fluctuations.

**Outcome/Ideas Delivered**
- Trader goes short on BP and Marathon Oil.
- Diversify portfolio and invest in shale oil companies like Tesoro and Holly Frontier.

**Source:** Cognizant Research Center

**Figure 7**

capabilities in understanding and integrating business and technology, offer high-quality research services and have superior market credibility relative to service delivery. This is critical to ensure the requisite operational efficiencies as well as to amplify key business benefits.

The growing sophistication of service providers to offer both technology and research solutions is creating a unique sweet spot that reimagines traditional research service models and serves ever-expanding market needs.

**Footnote**

1 Average trading volume on Wall Street is declining, and touched the lowest point in the last five years with less than 3 billion shares traded in August 2013. RoE for investment banks has declined by roughly 50% in the last two years in both Europe and the U.S. Similarly, the publishing and printing industry recorded a below average RoE of 4.39% in the past year.
About Cognizant

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