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A Poisoned Chalice

In one armchair sits Jeremy Paxman, one of Britain's best-known, often feared television interviewers. Facing him is a relaxed and smiling Sir Peter Job, newly knighted chief executive of Reuters, one of the most famous companies in the world.

The pair is flanked by giant TV screens, cameramen training lenses on the stage on which they sit. Below them in the cavernous ballroom of London's Grosvenor House Hotel is an expectant audience of 1,200 current and former staff of the global news and information giant, now celebrating its 150th anniversary.

The occasion, in July 2001, also marks the retirement of Job who, after ten years at the helm, is handing over to Tom Glocer, a former mergers and acquisitions lawyer and the first American and first non-journalist to head the company.

Reuters is riding the crest of a wave – three decades of virtually uninterrupted growth. But, although profits are running at record highs, cracks are beginning to show. The share price, driven up to all-time highs in the dotcom craze, is 40% below its peak, and only the previous day Reuters has announced more than 1,000 redundancies.

Nobody really seems to care. Reuters has had its ups and downs with the markets before and has always ridden out the downturns. Job is not going to let this latest blip spoil the party and responds to Paxman's questions in his customary self-congratulatory tone.

"Would you recognize a bus if you saw one, Sir Peter?"

Paxman gives Job an easy ride – this is, after all, a PR gig, not *Newsnight* – ribbing him gently about his journalistic background and his comment that, now aged sixty, he qualifies for a bus pass. "Would you recognize a bus if you saw one, Sir Peter?" he asks the multimillionaire captain of industry.

Less than two years later, Reuters is trading at a loss and the share price has crashed to less than 10% of its peak. Its market capitalization has slumped from £23bn in March 2000 to £1.4bn, far outstripping the decline in the FTSE-100 index over the same period.

Job has said he regarded his principal achievement as "exiting smoothly with the business in good shape and a seamless hand-over to a successor I respect". But he has handed Glocer what seems to have been a poisoned chalice and serious questions are now being asked about his ten-year stewardship of Reuters – once one of Britain's flagship companies, now vulnerable to an unwelcome takeover.

Did Job and his fellow directors fail to renew Reuters, fail to prepare for a vicious downturn in the markets? And if Reuters really was in such 'good shape' when Job handed over, what turned it so rapidly into the shape of a pear? Few inside the company will deny that something – apart from the sheer force of a savage bear market – went badly wrong.

The reality is that there were two Reuters in the 1990s. Viewed from outside, Reuters ruled the world with a powerful brand that meant trust, impartiality and reliability. It was a glamour stock. Its screens were bolted to the desks of the world's major banks, financial institutions and corporate treasury departments, and its news, photos and video sold to newspapers and broadcasters around the world. Here was a powerful technology firm with leading-edge networking, delivering data and connectivity to the global trading room, combined with the world's biggest news organization, each side bursting with university educated, technically savvy, capable and motivated staff. With some 20,000 staff running 230 multimedia news and financial services offices in 150 countries around the globe, few companies were better poised to exploit the golden opportunities of the Internet Age.

But inside Reuters things looked decidedly different. It had developed a product no one was using, and it had been sucked into a string of potentially damaging law suits and investigated by the FBI. Preoccupation with shareholder value was sapping its risk-taking entrepreneurial energy and Reuters had failed first to notice and then to head off the challenge of a new competitor, Bloomberg. As the Internet Age arrived, Reuters found itself without any clear strategy, uncertain whether it was a technology or information company or a bit of both, and unable to exploit its obvious advantages. And while senior managers indulged in high living, major divisions of the company were torn apart by a destructive succession battle.

This is a story of missed opportunities, of failure to renew, of a company that gets carried away with technology without knowing where it will lead. It begins with a businessman and would-be banker from Germany who became a successful journalist, and ends with a former mergers and acquisitions lawyer from New York taking over a beleaguered business from a bunch of journalists who thought they had become bankers.

PIGEON POST

Reuters made virtually no money for its first 120 years. It had survived that long thanks to a mix of entrepreneurial risk-taking and careful thrift, a few subsidies and subventions here and there, and a hard-earned and jealously guarded reputation for reliability. The launch in 1973 of a screen-based financial information service, Monitor Money Rates, changed all that almost overnight. The ex-journalists running the company expected to sell a few dozen Monitor screens around the world. When the Monitor network was shut down twenty-six years later, having been superseded by generations of even more successful products, there were over 500,000 Reuters users worldwide. Reuters had pioneered a global electronic marketplace. Commercial success does not come much bigger.

This giant of the media and financial world had risen from humble origins. Its founder, Paul Julius Reuter, was born in 1816 in Kassel in central Germany to a prominent Jewish family.

After an unsuccessful venture into publishing a news-sheet in Paris, he returned to Germany in 1849 and spotted the opportunity that was to ensure his place in history.

Telegraph had spread rapidly throughout Europe and the United States in the 1840s, though not until the mid-1860s would the continents be linked. The French government's telegraph line to Brussels remained closed to the public, however, and there was also a significant gap in the network between Brussels and Aachen on Germany's western border, which meant news despatches and commercial information such as stock prices had to be carried by train between these cities, for onward dissemination by telegraph.

In 1850 Reuter acquired carrier pigeons to carry news despatches the 76 miles between Brussels and Aachen, covering the distance in around two hours, less than half the time taken by the train. From Aachen these could be telegraphed to Berlin for newspaper and financial clients prepared to pay a premium for the faster delivery Reuter offered, with the same service offered in the opposite direction. The premium for speed was a principle that would underlie the news and information empire that would make his name known around the world.

The advantage offered by Reuter's 'pigeon post' was short lived. The gap in the telegraph network was closed in April 1851, barely a year after his birds had first taken wing. But undaunted, and now convinced of the growth potential for telegraphed news, Reuter moved to London, itself about to be linked to Europe for the first time with the laying of a Dover–Calais submarine cable.

The Industrial Revolution and the growth of the British

Empire had made London the financial capital of the world and Reuter set up a service to provide opening and closing prices from the London and Paris stock exchanges to clients in both capitals. The service was expanded to provide information on the all-important international grain markets. European newspapers took political news from London from Reuters, though British newspapers resisted taking its news from Europe until 1858.

By the 1860s Reuter's agents were reporting from the farthest reaches of the Empire, as well as America where Reuter reached an agreement with the Associated Press in 1862 to ensure good coverage of the Civil War. News from the other side of the Atlantic still came by mail steamer, and Reuter had agents at the main ports in mainland Britain and Ireland to distribute news and market prices as soon as the steamers arrived. One notable coup, in 1865, was a two-hour 'newsbeat' on the assassination of Abraham Lincoln more than ten days earlier.

'Follow the Cable' became Reuter's maxim. The steady spread of telegraph to the four corners of the world enabled Reuter to expand newsgathering, and also to widen the spread of newspapers and financial institutions able to subscribe to his services. Alexandria became the first office outside Europe in 1865, followed by Bombay the following year, Valparaiso in 1874 and Cape Town in 1876. Reuter retired as head of the agency in 1878, handing over to his son Herbert, but continued to serve on the board. He had been created a baron by the Duke of Saxe-Coburg-Gotha in 1871 and his baronetcy was confirmed in Britain twenty years later by Queen Victoria.

Baron Paul Julius de Reuter died in Nice in 1899 at the age of eighty-three. A year later Reuters scored one of its greatest-ever scoops, on the relief of British troops besieged in Mafeking during the Boer War. Its Pretoria correspondent learned of the breakthrough from the Boers and travelled to the Mozambique frontier to avoid their censors and get the story out. His telegram reached London the day after the relieving column broke through, triggering wild celebrations throughout Britain. Queen Victoria asked to see the original telegram, and it was another two days before the story was confirmed through military channels.

In 1925 the Press Association (PA), owned by the provincial press, bought a majority stake in Reuters, taking 100% control five years later. In 1939, just weeks before the outbreak of World War Two, Reuters and the PA moved to 85 Fleet Street, their new joint headquarters designed by Sir Edwin Lutyens, which remains Reuters Head Office to this day.

Another change in ownership came in 1941, when the national newspapers bought 50% of Reuters from the PA. An important part of the new arrangement was the Reuters Trust agreement, in which the PA and the nationals' umbrella group, the Newspaper Publishers Association (NPA), agreed to regard their shareholdings "as in the nature of a trust rather than as an investment", pledging to ensure Reuters "integrity, independence and freedom from bias" in return for cheaper access to its news. The Australian and New Zealand Press Associations took small shareholdings after the war.

Reuters finances nevertheless remained far from secure. Revenues grew steadily, reaching £2.4m in 1960, but profits were miniscule with the financial services, now grouped under the name of Comtelburo, subsidizing the costly and unprofitable general news service. Waiting in the wings however, were three men who were to transform Reuters fortunes over the next two decades.

TAKEOFF

The first of these was Gerald Long, who became general manager in 1963. Recruited from Cambridge at the age of twenty-five, he was fluent in French and German, a bluff Yorkshireman of humble origins but formidable intellect. He had risen rapidly through the ranks, becoming chief representative for Germany in 1956 after spells as a correspondent in Paris and Ankara, then assistant general manager for Europe in 1960. A tall, heavily-built man with close-cropped hair, bristling moustache and penetrating gaze, he could be an intimidating figure.

The second was Michael Nelson, head of Comtelburo since 1962. He had joined ten years earlier as a trainee journalist, a graduate of Magdalen College, Oxford, serving in London and the Far East before moving into management in London. In marked contrast to Long, he was a quiet-spoken, thoughtful man, though possessed of considerable toughness, vision and decisiveness.

The third key figure was an Australian, Glen Renfrew. On graduating from Sydney University he had done what many young Australians do – toured Europe. Arriving in London in 1952, he had walked into 85 Fleet Street and asked for a job, and was given an editorial position in Comtelburo. Relaxed and easy-going with a broad Australian accent, he developed a strong interest in technology, which was later to stand him in good stead. Assigned first to South Africa, then Singapore, he became head of a new Comtelburo computer division in 1964.

"Reuters could easily have disappeared in the 1960s."

Long recognized that drastic change was needed to ensure Reuters long-term future and the survival of the news service, its *raison d'être*. Had the nettle not been grasped, according to Nelson, "Reuters could easily have disappeared in the 1960s."

Here was a small British company owned by newspapermen who were not going to invest heavily in its future, faced as they were by the newly-arrived threat to their advertising revenues from commercial television. Unlike its main US competitor, AP, it had no strong domestic market base – just 58 newspapers compared with AP's 1,700 – and no government subsidy like Agence France Presse and other European state-owned news agencies.

The breakthrough came in 1964, when Reuters entered into a joint venture with a New Jersey company, Ultronic Systems. Ultronic produced a rudimentary desk-top computer terminal with a three-digit display and keyboard known as Stockmaster, which provided access to US stock market and other exchange information. The agreement gave Reuters exclusive rights to Stockmaster outside North America for ten years, and Reuters doubled its transatlantic communications capacity to introduce the service to Europe. Ultronic provided all the equipment for the venture, removing much of the financial risk for Reuters.

The system was soon highly profitable and Reuters added a master computer in London to make European stock and commodity exchange prices available. By the end of the decade it had installed over 1,000 Stockmasters in Europe, and the service was extended to Tokyo, Hong Kong, Australia and South Africa.

In 1970 Ultronic introduced a new screen-based terminal with a 72-digit display, providing a much wider range of data. By 1974 Stockmaster and Videomaster had contributed £4m in profits to Reuters coffers, and at minimal risk, Ultronic having provided most of the capital and equipment.

INTO THE STRATOSPHERE

The new decade brought another opportunity that would transform Reuters. In 1971 the Bretton Woods Agreement, formulated in 1944 to ensure post-war economic stability, was dismantled and with it went its central platform of fixed exchange rates.

"This was going to revolutionize the markets and we'd better see how we could exploit it."

"We decided that we had better look at the implications of this for Reuters," Nelson recalls. "This was going to revolutionize the markets and we'd better see how we could exploit it."

André Villeneuve was another Oxford graduate, who had joined as a trainee journalist in 1967 and moved swiftly into management. Nelson sent him to Switzerland to talk to major banks. The problem was that, unlike stock and commodity markets, there was no trading floor for foreign exchange, spot and forward rates being set by telephone and telex between banks, brokers and their customers.

Villeneuve drew up a proposal for a system to display banks' exchange rates for major currencies on Reuters screens. The idea had an element of cheek to it. On one side of the service were contributing banks, who would insert rates into their own 'pages' on the system. Recipients would pay Reuters solely to view the data, but contributors would also be charged for the privilege of inserting their own data.

The proposal went to Nelson early in 1972, and he took just days to weigh the risks and rewards before putting a formal plan to Long. He in turn put it to the board, few of whom, being newspapermen, had much idea of what it was all about.

The costs were modest by today's standards – a loan facility of £800,000 was arranged though only £200,000 was drawn in 1973 when the service was launched. But Reuters was a poor company, so the risk was significant. Nevertheless, the board acquiesced.

Expectations for the service were also modest. Only a few dozen subscribers were anticipated, and the computer system behind it was designed to accommodate just a couple of hundred. When the Reuter Monitor foreign exchange market quotation system was launched in mid-1973, there were just fifteen contributors and the same number of recipients, all banks. London brokers feared the greater transparency the system brought to the market would threaten their business.

In October 1973 war broke out between Israel and its Arab neighbours, and the Arab oil producers imposed an embargo on supplies to punish the West for its support for Israel. Oil prices more than quadrupled and financial markets were thrown into turmoil. The increased volatility of the foreign exchange markets might have been expected to provide a huge boost for Monitor, but it was almost its undoing.

"Markets were going wild because of the oil shock, and there was a danger that the Reuters Monitor would fail."

"Markets were going wild because of the oil shock, and there was a danger that the Reuters Monitor would fail, because people were too busy to use a new instrument," Nelson recalls. "The paradox was that the very conditions we had hoped to exploit were there, but they came a little bit too early."

The problem was that contributors had to insert rates manually, a slow and cumbersome process which was later automated. "It was a tremendous *tour de force* by André to persuade people to use Monitor despite the fact that, because of the turbulence of the markets, they were too busy to put their rates in," Nelson adds.

Within a year, Monitor had outstripped all expectations with 250 subscribers to the 'green screen' – bright green characters on a black background – in the UK and Europe, a figure which had grown to 1,000 by late 1976. Money News Retrieval, which enabled clients to view news on the Monitor screen rather than teleprinter, was launched in 1975. Market-moving newsflashes appeared at the bottom of the screen regardless of what page a user was viewing.

The breakthrough that would place Reuters at the centre of the foreign exchange markets for a generation was the FXFX page. This multi-currency display was created by automatically transferring rates from major contributors to a single page, enabling users to see every key change in the market in one place instead of trawling through individual banks' pages. FXFX became the window of the foreign exchange market, and came to symbolize Reuters unique success.

Reuters had stumbled upon a way of making money twice out of the same piece of information, with contributors paying to insert their rates and users paying to view them – and in so doing had created the first global electronic marketplace. FXFX entered the language of the dealing room but also insinuated itself into Reuters as the benchmark by which all acquisitions and subsequent business proposals would be judged. In the eyes of one consultant, the company developed an 'FX fixation'.

More data and news was added to the system – bonds, equities and US government securities. Reuters was virtually unrivalled in news and information for the plethora of spot and futures markets for commodities and in 1981 launched a highly successful service for the oil markets which, in the heyday of OPEC, had a major influence on most financial markets.

Such was the success of Monitor that Reuters spent the next decade struggling to keep pace with demand and to expand the systems behind it to handle the huge flow of data. Within ten years of its launch Monitor had generated £100m and Reuters turnover had leaped to £242m from £17.5m – an annual growth rate of 30%. Profits soared to £55m from just over £1m in 1973, a compound growth of almost 50% a year.

Monitor was not entirely a lucky accident – Long, Nelson and their colleagues had identified an opportunity in the collapse of Bretton Woods and moved to exploit it. But they could not have anticipated the explosive growth of foreign exchange and money market trading in the years following its launch, and never in their wildest dreams could they have imagined the success Monitor would enjoy, the millions of pounds of profits it would generate. They had gone panning for gold nuggets and stumbled across Eldorado.

FLOATING ALOFT

With much of the credit for Monitor's success down to him, Nelson became general manager in 1976. Renfrew had moved to New York in 1971 to head Reuters North America, and the two men were appointed joint deputies to Long, now managing director. By 1981, Long was restless after eighteen years at the helm. "He was clearly bored with Reuters, and there wasn't much more he could have done for it," says Michael Reupke, then editor-in-chief.

Long had become close to Rupert Murdoch who, as chief executive of News International, owner of *The Times*, *Sunday Times*, *Sun* and *News of the World*, was a director of Reuters. The recently acquired *Times* was floundering, and the two had frequently discussed how it could be shaken up.

"Long came into my office one day and said to me: 'Murdoch has just offered me the managing directorship of *The Times*'," Nelson recalls. Asked how he had responded, Long replied: "It took me all of two minutes to say 'yes'." He hadn't even asked how much he would be paid.

Murdoch wanted someone who was acceptable to the British establishment, and who could have fitted the bill better than the managing director of Reuters? But the move was not a success. "His problem was he knew nothing about newspapers," Nelson observes, "A very different matter from running a news agency." He lasted just a few years. The move also, ultimately, meant he lost out on a fortune.

To the great surprise of many, it was Renfrew who succeeded Long. Nelson had been the driving force behind the growth of the previous twenty years, but Renfrew, with his enthusiasm for technology, was felt to have more ambition for the future.

Another major change was in the wind. Reuters profits had quadrupled in 1981 and more than doubled the following year, and it began to dawn on the proprietors that their shares in what was once a small 'family news agency' were now potentially worth millions. A campaign began for Reuters to go public, to unlock this new-found wealth.

"I felt a flotation for Reuters was a bad idea, although I did not fight it very hard."

The debate was divisive. Chief among those pressing for an early float was Lord Matthews, a Trustee of Reuters and chairman of Fleet Holdings, which owned the *Express* group. Less convinced was another Trustee, Associated Newspapers chairman Lord Rothermere, whose *Daily Mail* was the *Express*'s biggest rival. Murdoch himself told the authors in a recent letter: "I felt a flotation for Reuters was a bad idea, although I did not fight it very hard."

There was some speculation he might eventually seek control of Reuters himself but, according to one director at the time, Murdoch was "on the side of the angels" seeking to ensure Reuters' integrity was protected, rather than siding with the handful of proprietors who were apparently solely concerned with how much cash they could extract.

Renfrew had been sceptical, seeing no need to tap to the stock market for capital, although he, Nelson and company secretary Nigel Judah were now shareholders, having been given a new class of non-voting shares in 1981. Renfrew changed his mind when the US company Telerate, Reuters biggest competitor in the financial markets, launched a highly successful flotation. Not all within Reuters were convinced, though, the journalists in particular fearing the company's independence would be under threat.

The run-up to the flotation was a long and complicated business, centring on a new Trust agreement and a share structure compatible with the Trust principles as well as attractive to both proprietors and potential investors.

The eventual solution was a 'Founder's Share', a single share controlled by an expanded board of Trustees able to outvote the entire issued share capital in the event of any threat to the Trust principles. There would also be two classes of voting shares, 'A' shares retained by the proprietors and 'B' shares offered to the public, but with the A shares having four times the voting weight of the B shares. This was not liked by City institutions and many boycotted the flotation. As a result, the share issue raised less than earlier projections, which had put Reuters total value in excess of £1bn.

In April 1984 a new company, Reuters Holdings, was set up and three new directors brought in – Christopher Hogg, then chairman of Courtaulds, Walter Wriston, head of the US banking giant Citicorp, and Volvo chairman Pehr Gyllenhammar. Reuters became a public company on 4 June through a flotation on the London and New York exchanges of some 25% of the equity – 106.8m shares at £1.96 a share, valuing the company at around £800m.

Reuters itself raised £50m in new capital and Renfrew, Nelson and Judah became millionaires. Dozens of managers with share options found themselves wealthy overnight, but every member of staff was given the right to buy a modest allocation of shares at a favourable price. Gerald Long got nothing.

The windfall for the newspapers, totalling around £150m, transformed Fleet Street. The City boom which followed financial market deregulation had sharply pushed up Fleet Street property values and this, coupled with the Reuters millions, enabled the proprietors to invest in new offices and print works embracing the latest technology, sweeping away the infamous restrictive practices of the print unions.

Murdoch's move in 1986 to 'Fortress Wapping', his secretly built new plant east of Tower Bridge, is the best-known example, with daily TV news footage and newspaper accounts of staff running the gauntlet of enraged print workers. But others followed suit, moving to new plants on the south bank of the Thames and elsewhere and, within a few years, not a single national newspaper remained in Fleet Street.

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Masters of the Universe

Jonny Fitzgerald had always been something of a showman. Both parents were actors – father Walter counted Squire Trelawney in the film of *Treasure Island* among his credits – and, with his natural gregariousness, Fitzgerald was a born salesman. In 1979 he found himself trying to sell something that didn't exist.

Reuters had considered the possibility of a transactional element to Monitor, enabling banks actually to deal via the network, at the time of its launch, but realized that a more robust technical infrastructure and greater development effort would be needed, so the project was kept on the back burner. Nelson, though, saw that there was nothing to stop a competitor such as Telerate launching such a system, which would have threatened the survival of Monitor, now vital to Reuters.

"They would see what it was supposed to do and the idea was to get them to say: 'Yes, if you produce this, we will take it.'"