John Walker, Oxford Economic Forcasting

John Walker insists that Oxford Economic Forecasting (OEF) started almost by accident. "I began work as an economist at the Treasury in London in 1973, but left in 1973 because I did not see myself as a civil servant. I then went to the forecasting group of the Economist Intelligence Unit (EIU) but, after about three years, thought I should become more international. So I went to work for the European Commission in Brussels which was great fun, but convinced me that I did not want to be part of any bureaucracy."

"While I was thinking what to do several people said: 'Why not come to Oxford and set up an economic forecasting group?' Among them were economists, but also Uwe Kitzinger, President of the newly-developing Templeton College." John says it sounded a good idea. "Kitzinger building up the college - still somewhat separate from the University – was keen to attract me. So I decided to come and persuaded Glenn Davies, a colleague at the EIU, to join me."

Developing the idea

"The idea was this. At the EIU, we were using the Treasury's economic forecasting model, but it was big, cumbersome and without particular advantages apart from the status of the Treasury's name. Now the Treasury had developed a much smaller model. This strengthened our speculation that we could build and operate such a model and make it both more effective than that of any other UK forecasting group and also commercially viable - which we were keen to do. It was a very crowded field, but we believed we could do something better than the competition."

"Glenn and I started working full time for OEF towards the end of 1983. There were two or three of us for two years, but since then numbers have grown quite rapidly and, with part time advisers, etc, we now have the full-time equivalent of 35 to 40 people, only two working outside the UK - in Basel and Philadelphia."

"We started, like other domestic groups, with a strong UK focus. In 1985, however, we decided that to distinguish ourselves from 'the rest', we must become more international – a step change. This struck a chord with clients and, increasingly, the key events with most impact on UK economic performance have been international – recently the Iraq war, the East Asian crisis, etc."
"Initially, our main concern was to provide a good model that other people could use but after the first period at Templeton, when we used a massive mainframe with its related paraphernalia, we made a crucial decision – to abandon the mainframe and put the model on a personal computer. So instead of spending £200,000 on a mainframe we bought two PCs. They cost £20,000 but having them meant that by 86/87 we had a world model on a PC. That was the best of all our early decisions. Clients could use this model on their own PCs, which they enjoyed, and that put us way ahead of the competition."
"We were also helped by massive expansion in the City of London, as it became the largest centre for companies interested in world economics in one city – even for US companies. To build on that, clients called for a model of the world economy. We had one, but no one else did. True, it then only covered ten countries, against about 40 now, but they did include the USA, Japan and the main European economies."

"In modest ways we now monitor countries outside the top 50, but we do not model them in detail. For the bigger countries we deliberately chose to do the modelling ourselves, including countries in Eastern Europe. Beyond this we sometimes build models by working collaboratively with government departments in the countries themselves – for example, China, Egypt and Turkey – sometimes paid for by international institutions. "

"A big success factor has been the massive reduction in costs of telephony and computing since the 1980s. This has helped as we have sought to support clients overseas. Moreover overseas clients travel here for meetings too."

“Selling documents is only a small part of what we do. Our Templeton meetings always lasted a full day and we now have two meetings a year in Basel, two in Washington, and six in Oxford, plus occasional meetings in London.   So clients get most from us at these meetings. Contact there is much more useful than just reading a book, a web page or an e-mail.   These can set out the arguments but not the ‘flavour’ we want to get across.”

Marketing

“Marketing has been our biggest issue, but to some extent it has been straightforward, because many clients have come to us through word of mouth.   In a way, that has always worried me – it seemed too easy - but we were able to invite people free of charge to meetings at Templeton, which helped a lot.   In the early days those meetings themselves were as much concerned with marketing as anything: we were saying, ‘These are the things we do!’ We have also always had good, sympathetic media coverage.   But it is remarkable how much business comes through people telling each other about the quality of our services and what our model can do.”

“The early clients were a mixture of big financial institutions and big industrial companies like British Steel and ICI, all of whom made their own forecasts.   Initially, we grew very slowly and by 1990 had about 50 clients. Now, with over 300, the recurrent nature of revenues is important. Today’s clients typically pay between £5000 and £20,000 - all in advance - giving them access to the model, forecasts, data, etc.”

“Initially, clients were economists from big organisations, but just as the technology of distribution changed, so have organisations. ICI used to have 10 or 15 economists, doing a range of things within a purely economics function and we largely provided the technology and techniques they needed.   For various reasons, such organisations now employ one economist – even none - so we provide them with economic expertise. Clients have outsourced their economics. This is more common in the non-financial sector and some big financial institutions do still have big economics teams. We now have a dual role, depending how the client organisation has developed.”

“We have had to change too and now employ fewer young technical people, aged say 25, and more 35 to 40 year-olds who can talk to clients as business development people.   Typically, 25 year-olds come to us for 3 years and then move elsewhere for broader experience. Some employees have been around for 20 years and staff turnover is generally very low.”

Finance

From the start, members provided us with facilities and we paid wages out of our earnings.   We were very cautious. In the first two years we did have a very small loan from Templeton – around £5,000 – but that was all.   Subscriptions paid in advance are a splendid source of finance. Provided we gave good services – which we did - we needed little capital. Indeed, in the dot.com boom when others suggested we should raise capital in the City, I used to ask them what we would do with it. We would probably not have used it well.

Templeton provided office accommodation, use of the phone and other facilities and in exchange were given shares in OEF. The company began through issuing 100 shares –which has now become 1570, mainly through a subdivision.

Initially, most of our six directors were economists – including Derek Morris, Chris Allsop and Douglas Hague. Chris remains, Andrea Boltho has joined, and the board now numbers only five, though the company is ten times bigger. I am Chairman and Adrian Cooper is chief executive, running the company day to day.

Being in Templeton had enormous advantages, but also constrained us. It was partly that, like most university institutions, the college was rather political and we were an issue for some fellows, though many were very supportive, like Michael Earl and Jack Broyles. Then, perhaps, we got too big for Templeton – seven or eight people – by 1990.   We were doing reasonably well and needed more space, but so did Templeton and suggested we should pay a commercial rent. I replied that the shareholding had been given to the college in exchange for free accommodation and if we had to pay for that we would need to change the shareholding structure. So we moved into central Oxford in 1993 though we still hold some meetings at Templeton. That greatly weakened the link with the college and gradually Templeton reduced its shareholding to zero.

The future

Over the last decade Adrian and I have been determined to give OEF some value. We have tried to make it clear that we operate as a company and not just a group of individuals doing something we enjoy. We give good salaries, good incentives and involve senior staff in decisions of the company. But we also need to create value beyond the human capital of our staff and ensure that, even if I were to leave, OEF will survive. I do not want OEF to be just John Walker. I want a company that can exist without me. The company simply has to have value outside yourself.

Essentially, OEF is a very simple business, but most economists are very bad businessmen, and do not like reporting to business people. Combining reasonably good technical economists with reasonably good businessmen gave us a good start, though I would not run our skills down. I think we have succeeded in ensuring that no one thinks the company is me but accepts that it has human capital and also reputational and historic value that gives it genuine worth.

We really have taken the view that it is important to do things well, rather than just a lot of things. So, if someone wants forecasts for 170 countries they can get them from the FT or the Economist. To charge a client £10,000 we must do something very much better and we have to remember that. And on all fronts we tell clients, 'if we do more of this, we may not be able to do it equally well.' It is not just a marketing point. Especially if you are small you have to do things very well. You need to provide a good quality model and good quality economic analysis – and you should not distinguish between them – you must do both well. So we need to employ very good people, and get clients to listen to our message or read it.

What clients want to know is why we think the UK or another country will go in a particular direction, but also the associated risks. Whether GDP growth is 3.0% or 3.4% is almost irrelevant to everybody! So is how accurate our past forecasts have been. We are trying to ask whether things are going pretty well and what are the dangers of them going wrong? What big things might go wrong? And we advise the client on what he should do if things did go wrong. Answering that is much more valuable than getting the decimal points in the growth rate more precise. Clients do need forecasts but what matters for them is what would happen in, say, the chemical industry, retailing or financial institutions if things went wrong in a particular way.

"Getting Out"

As for 'getting out', what would I do instead? The only alternative is setting up something else. There are other things in economics I am sure I could do, but I would not want to do anything that damaged OEF and economics is a very narrow field. But I am sure manufacturing could be done better, so maybe I should set up a small engineering company!

Douglas Hague, July 2004.