

Time for a new trend in customer - software vendor relationships?

With more and more focus and spend being directed towards e-Trading strategies, and with a new wave of software vendors claiming to have viable e-Trading solutions, banks face some critical decisions in order to secure or enhance their position in this fast-changing market. Joe Locke, Banking Operations Director at Eurobase International offers an insight into what an organisation should consider in order to select the right vendor and product and provides his view on what may well be a new era for customer and software vendor relationships.



Joe Locke

The historical trend

It is commonly recognised that, historically, multiple software vendors have been chosen by an organisation in order to meet the requirements of the trading floor. The products offered by these software vendors traditionally specialised in front, middle or back office requirements and even specific asset classes, e.g. FX, MM, Fixed Income, Options, Derivatives and Equities. It is mainly the front office where there is the highest number of software vendors, whose products need to be integrated to the organisation's back office product.

As the e-trading market gains more momentum, organisations are wary of repeating this scenario. Significant time and investment is being spent by organisations as they look to determine best strategies and the right software solutions to meet their current and future e-trading requirements.

The rise of etrading

One of the major factors resulting in a steep rise in investment into e-trading solutions is customer demand. Organisations recognise that in order to gain customer loyalty they need to provide the best service. It is recognised that providing an intuitive web-based

trading platform, covering a wide range of functionality (e.g. breadth of asset class and features) is the key means of doing this.

Further to this, organisations recognise the cost savings to be realised from automating their trading environment. The investment in e-trading strategies and solutions is not to be undertaken lightly. According to a study by market research specialist, Client Knowledge, FX e-trading amounts to \$2 trillion of daily transactions, with predictions for the figure to rise from 50% to 75% of all transactions in the next four years. The market for e-trading systems is currently worth \$400m per year, and is set to rise to \$800m in four years. Whilst predominantly the e-trading market has centred on FX trading, this is rapidly expanding into the money markets, fixed income and other asset classes.

Vendor selection

When selecting a software vendor to meet its e-trading requirements an organisation will need to have as one key factor a determination of the reputation of the software vendor. The e-trading market is a continually evolving market place and software vendors face the challenge of evolving with it. Organisations need to identify vendors that not only support the requirements of

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today but more importantly the capability of meeting those of tomorrow. Any chosen software vendor will need to prove it has a strong reputation for delivery. Post implementation support is also a key factor. The software vendor should be able to verify an excellent level of support, globally and across all its products through strong reference sites chosen by the potential customer, not by the vendor.

An organisation should not underestimate the importance of high quality staff. It must ensure that, outside of the sales environment, it reviews the strength of staff across the organisation – these will be the resources developing, installing, training, project managing and supporting the products going forward. In the e-trading market it is also essential to consider the strength of the software vendor's products across the following key points:

Breadth of asset coverage and functionality - As previously outlined, many organisations are striving for a reduction in the number of software vendor relationships. They are wary that, by adopting a software vendor to meet the demands of a specific business requirement, they could follow the front office trend of implementing multiple software solutions to meet the needs of specific asset classes. Therefore organisations should aim to identify solutions that support the widest range of asset classes within an e-trading platform.

Ability to rapidly deploy new asset classes - It is undoubted that new strains of asset classes will continue to emerge in the market and these asset classes are often associated with greater margins and profitability. Having the ability to rapidly deploy these new classes to the market gives the organisation the ability to capture a greater share of the market and the more profitable trades.

Performance - This is essential in the e-trading market. Organisations should strive to get the most accurate prices onto the market and performance is a key factor in achieving this. When considering performance, terms such as "seconds" or "sub-second" should no longer apply; "milliseconds" is where the targets now lie.

Integration capability - Ease of integration is important. It is inevitable that any e-trading platform will need to integrate with the back office, rate sources, multi-bank portals (FXAll, Currenex etc) and directly to customer portals. Compatibility through recognised standards such as FIX, FPML and TWIST should be viewed as essential.

Technology and architecture - The market is flooded with legacy systems that are outdated in terms of technology and do not benefit from the major advancements that the latest, proven

technologies bring. The technology and architecture will determine the performance and scalability of the product and should not be considered just in terms of immediate requirements but more in terms of those of the future. It should be considered key that any e-trading software solution be object-oriented and event-driven. Dependencies on third party suppliers (an example could be Microsoft) should also be reduced where practicable owing to the additional overheads and commitments these can place on the implementation and support of a solution.

The benefits to be had from a strategic software vendor relationship

It should be recognised that the selection of a software vendor in the e-trading arena is more often based on strategy rather than solely meeting an immediate and specific requirement. It will be in the interests of both parties to build a strong relationship in order to get the most value from it. Much of this responsibility will lie with the software vendor. They will need to appreciate the importance of gaining customer confidence and trust – primarily achieved by proving delivery capability.

It will also be key that the software vendor recognises the direction of the market in the short, medium and long term to ensure their solutions can meet the requirements of the future. Organisations should realise the role they themselves have to play in order for the software vendor to be able to achieve this as it is they, primarily, that the software vendor will need to rely upon in order to recognise and cater for the future direction of the market.

Software vendors recognise the need to invest in their products (the "road map") to secure their future revenue and the majority are willing to do so. However they need their customers - their sources - in order to give them the confidence that their investment will return revenues in the future.

The long term outlook

The meteoric rise of e-trading is set to continue for many years to come. Due to the affect this will have on the profile of an organisation, it cannot be underestimated the importance of making the right choices in relation to solution providers. In particular, it is the initial choices made by an organisation that will lay down the foundations of its e-trading platform not only for today but also tomorrow. There are also signs that the financial industry is steering towards vendor consolidation, yet will have to achieve this in a rapidly expanding e-trading market where new solutions and software vendors will have to be considered.

It is likely that the organisations that choose the right software vendor, and just as importantly, build the strongest relationships, are the ones which will maximise the rewards of the e-trading market place.