

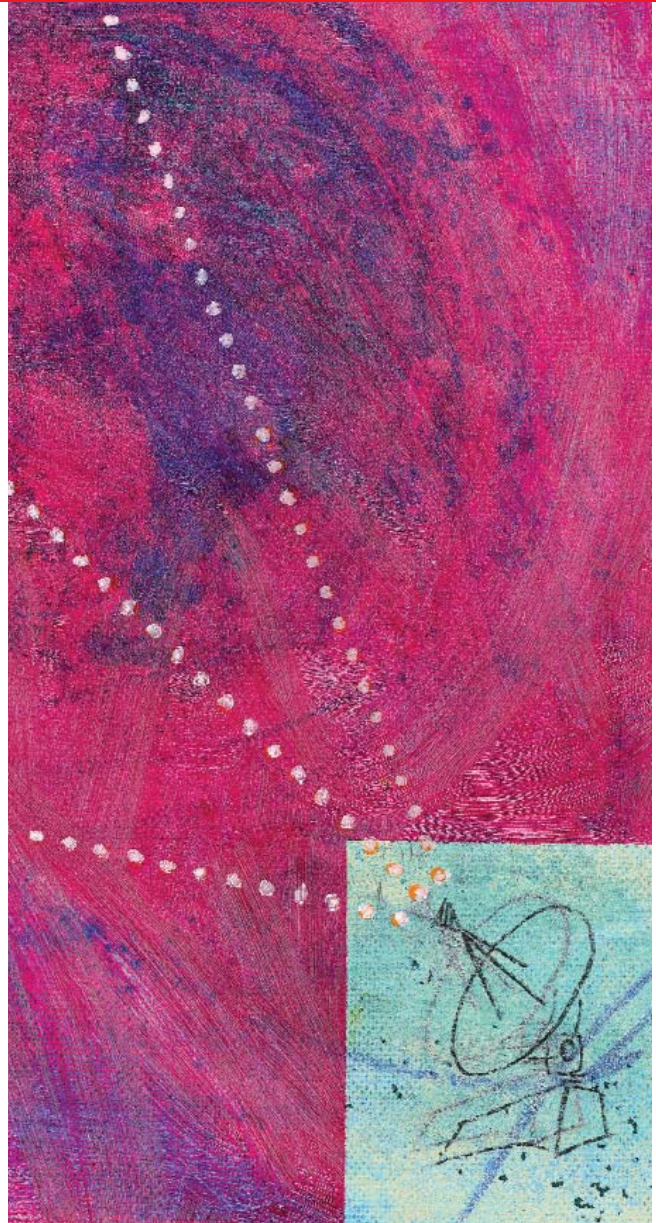
Imperative for success: taking a revised approach to connectivity solutions

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The IT industry has gone through tremendous change in the past 20 years, transitioning from mainframe to client-server and now to Internet technologies. Yet as global as these developments have been, nowhere has the impact of this change been felt more profoundly than in financial services.

Application solutions, spawned by faster CPUs, cheaper storage and more automation and integration have grown more complex and far-reaching. The reliability and geographic reach of IP networks have made communication ubiquitous, and standard protocols such as FIX have created a world where seamless business-to-business electronic conversations are possible. On Wall Street trading desks, entire business processes are being completely re-engineered to take advantage of these new technologies and financial services firms are hustling to keep up. We have begun to move beyond disparate point solutions and towards an end-to-end business model where everything is becoming integrated.

Add to this era of rapid technological innovation things like faster ROI, the dynamic global economy, and the changing regulatory landscape and you have tremendous



challenges for the financial services industry as it embraces FIX standards and strives towards seamless connectivity.

The global uptake and continuing evolution of the FIX standard and associated technologies in many ways mirrors the general evolution of technology across all industries. FIX started out as something companies experimented with in-house as a means of connecting business systems to trading partners on a very limited scale. As the protocol began to deliver, adoption rates rose and a small community of vendors began to sell point solutions. Financial firms began buying these FIX engines in order to tap into the cost savings of electronic communication.

Our industry has come a long way from the in-house FIX engine. Electronic trading technology has inarguably grown in sophistication, and the FIX protocol has been

pushed aggressively beyond the front office world of equities trading. And the word connectivity has also matured. Once defined as 'FIX-enabled', it now encompasses a much larger footprint addressing the entire business process: pre-production certification testing, production-time monitoring of exceptions, connection status and processing efficiency, and the incorporation of protocols beyond FIX. Essentially, connectivity has become a full-blown mission critical business solution, similar to what ERP solutions did for the back-office and manufacturing processes, and what CRM solutions have done for the management of customer data.

To stay competitive and control costs, financial firms today are doing more with less. Investments in technology are considered carefully, as companies look for economies of scale in solutions that can be leveraged across many business groups. In addition, because time to market is critical, outside expertise is more highly valued than ever. Recent trends show that firms have increased the outsourcing of technology and services as they focus internal resources on core business and IT functions.

While the pace of technological advance has been nothing short of extraordinary, it is astounding the challenges that still exist in terms of delivering solutions that capitalise on the technology, meet the needs of the business, provide real returns to the organisation and are on time and within budget. This very issue is creating major roadblocks for organisations trying to drive strategic advantage through technology.

Considering the following:

- 44% of Financial Services firms are dissatisfied with their internal IT shops, and 53% of IT leaders in US\$1 bn-plus financial services firms point to a need for improvements in IT project performance.
- Only 12% of US\$1bn-plus firms believe that the IT organisation has a very positive impact on the bottom line. 21% of their IT projects fail.
- 53% of firms expected staffing to stay flat in 2003; 20% expected staffing to decline.

While these statistics appear grim, they should not be surprising given the complexities we have been discussing. Imagine the cost implications of these statistics – billions! These trends cannot continue. Now more than ever, it is

imperative that we reconstruct the approach to delivery and management of these solutions to address the current challenges. As FIX adoption continues to grow and financial services companies begin in earnest to drive their connectivity strategies into integrated technology solutions, there is a way to improve success rates significantly for strategic connectivity implementations.

The key to success lies in creating a more holistic approach to technology solution deployment in the connectivity space. These issues are complicated on both the technology and business levels and the solution is not simple. However, if defined and executed properly, it can lower implementation costs and greatly improve the odds of success. As the pace of change increases, the technology gets more complicated, the demands on business and IT increase, and companies increasingly look to software vendors for solutions, there is no other way to be successful.

Causal factors that drive the need for a revised approach:

- Connectivity is becoming an enterprise-wide strategic business solution
- Technology itself is not the biggest challenge in software implementations
- Organisations are doing more with fewer resources
- Customers are demanding integrated solutions, not just technology from their providers
- Delivery execution in IT is, in general, still poor

Vendors must provide innovative technology strategies and solutions, and make customers successful by providing an integrated approach to implementing those solutions

In our marketplace today, software providers seem to believe that the actual software itself is the solution: "Here's a FIX engine that can do 10,000 messages per second! Take it and be successful!" This is a naïve and dangerous view for a vendor to take. Because real software success requires complete and successful integration, a vendor selling a product with no implementation solution jeopardises success. This can harm a company's long-term prospects

and certainly damages the vendor's long-term relationship with its customers. Customers are demanding integrated solutions and providers must step up to the plate and provide integrated solutions that address all of these causal factors.

Software providers must also recognise that 'connectivity' - even around standard protocols such as FIX - is becoming an increasingly tough thing to do from both a technology and a business perspective. Vendors must expand their offerings to include not only more comprehensive 'platform' solutions but also the right kinds of technology and business expertise to help ensure the customer's successful deployment of the technology. Sell and deliver solutions, not technology products.

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Conducting business in this more holistic way is a far more sustainable model long-term. Why? Creating solutions and fostering a long-term relationship where value is based on the relationship between the vendor and customer, the quality of the technology solution, and the continual value that the vendor brings in the way of solutions is just better business.

Some technology services companies have been employing standard disciplines that address the causal factors above such as return on investment, change management, and business process re-engineering, for years, albeit with varying results. Software companies in financial services can and should step up to the plate. Below I outline five keys to a revised approach to successful delivery of connectivity solutions for our rapidly evolving space.

1. Create business solutions

Connectivity is a business process. Software providers need to focus on the business applicability and how it fits

into the strategic goals of the organisation. Plugging in FIX engines on a case-by-case basis will leave organisations with fragmented solutions and technical architectures that will prove costly to maintain and rectify in the long run.

Companies need vendors with technical solutions and business expertise

Companies want (and need) to turn to their service providers to help them map out a holistic connectivity strategy. It's not just about the FIX engine; it also includes testing interfaces to customers and other downstream applications, monitoring message flows across disparate systems and the inclusion of other protocols, etc.

Creating a credible strategy involves establishing a roadmap that defines where the company wants to go with its business and defining how technology solutions can help it achieve its strategic goals. And, of course, everything needs to be based on the overall return to the business. Companies need vendors with technical solutions and business expertise to make all of this possible.

2. Incorporate people and process into the solution

This is an often overused expression, nevertheless, it is true. Many studies have shown that the majority of IT project failures are not a result of faulty technology. A recent Forrester study showed that 13.5% of the time, respondents pointed to selecting and implementing technology as the source of project failures, the remaining 86.5% was related to strategy and process definition and user adoption of the technology. Companies should heed this statistic and ensure that the proper amount of focus goes to defining the strategy, laying out the business process, engaging people throughout the organisation and addressing technology adoption.

3. Leverage industry expertise

The FIX standard has only evolved over the last ten years, with significant uptake not being seen until the release of version 4.0 in 1997. While 97% of North American sell-side firms and 77% of North American buy-side firms currently use FIX in some aspect of their trading business, only 10% of these firms communicate more than 75% of

their order flow via FIX. However, nearly half of all buy-side and sell-side firms expect over 50% of their order flow to be transmitted using FIX in the next 12 months!

There are relatively few experts in the connectivity space and the landscape is changing rapidly. Organisations must be confident that their solution provider is not only an expert in their product offerings, but an industry leader proactively working with the marketplace to provide connectivity solutions. They bring the collective expertise of all of their customers to the table and that is a significant value-add when building solutions. Relying on these providers to just install the software is an underutilisation of the value that they can bring to an organisation.

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4. Build long-term customer relationships

Vendors that will succeed in the future are today taking a very different view of their customers. Acquiring and keeping customers is about helping them succeed and providing value beyond the technology sale – it is no longer just about selling technology. And as noted previously, success increasingly requires providing a full-service solution to customers. Solutions need to scale as the technology and business mature. Decision makers need to be forward thinking in terms of how technology can be used to differentiate their business from that of their competitors. Fostering and developing strategic customer relationships will truly define the next generation of technology vendors and competitive advantage for their customers.

5. Integrate all elements of the solution into a proven delivery methodology

A solid delivery methodology should bring all solution components together into a seamless process. A methodology does not have to be a voluminous, over-engineered list of tasks! It can be a simple process to follow that appropriately integrates all the necessary components. It should be unobtrusive and does not have to be overly complicated. Most importantly, the value of any

methodology is not in its existence but in the disciplined execution of the right steps and tasks.

When taken separately, each of these statements seems fairly intuitive. Most worthy consultants will mention them as being important to their overall approach. However, any of these elements can be overcomplicated to a degree as to be worthless in practical implementation. The financial services marketplace, and the connectivity space specifically, demands an integrated view of these elements in a manner that can be executed simply and quickly for the customer.

The majority of the time, technology does not fail because of the technology; it fails because organisations do not take a broad view of the implementation challenges inherent in any technology deployment. Failures can be measured in degrees from the system not going live, to lack of full adoption, to some aspects of the system not delivering functionality as promised.

Vendors must provide innovative technology strategies and solutions, and make customers successful by providing an integrated approach to implementing those solutions. Software providers must help customers achieve success – an integrated, full service approach that benefits the customers, the industry and ultimately the software provider. **FIX**