Buy versus Build

Part 2: Not all vendors are the same - old and new challenges

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The traditional approach to trading platforms among larger firms in the global equities space has been to build their own, following the rationale that building in-house brings control and hence flexibility to respond as the market evolves.

This has always been inefficient, but historically the revenues and growth were there to support this approach. Today this inefficiency really starts to stand out as the same effort is repeated across many firms, connecting to the same buy-sides, execution venues, implementing equivalent algorithms, risk controls and post-trade services.

Since the global financial crisis, this has got worse as the amount of IT budget allocated to keeping pace with regulatory evolution and internal control has risen leaving less available for innovation. This is backed up by a Celent report that notes that firms spend 75% of their IT budget just maintaining legacy systems[1].

As a result, and despite having very large and powerful internal IT teams, some parts of the application stack just don't get the investment they need and so become orphaned. This multi-speed approach creates problems further down the line where the entire platform becomes hostage to its weakest link.

The obvious response to this situation is to 'build AND buy' – buy the parts of the application stack that are commoditised or standard functions, the 'pipes and plumbing', while focusing the build effort on areas where firms can genuinely differentiate and add value to customer service.

This 'build AND buy' approach isn’t new, yet there are relatively few examples where the full benefits of this common sense construct have actually been realised.

Why is this?

In practice there have been significant challenges to 'build AND buy', including of course the simple point that the build culture that dominates large firms is highly ingrained. On top of this, proponents of build are quick to point out the very real declivities of many of the 3rd party solutions

[1] IT Spending in Banking: A Global Perspective - Jacob Jegher, Gareth Lodge and Hua Zhang, Feb 2015

available from vendors. These include lack of conformity to internal architectural standards, lack of global availability and support, and a lack of flexibility.

Even when such flexibility does exist, it often needs an army of developers with specialist skillsets to implement thereby defeating the object of buying in the first place. And, of top of this, there is the whole issue of vendor viability either at a corporate level or in terms of commitment to the product itself.

All in all this boils down to a single and very strong emotion - loss of control - which, for large banks that trade billions of dollars every day, can be an extremely uncomfortable feeling.

Part 3 in this series addresses the 'loss of control' fear.

Click here to read Part 1: Rebalancing the Paradigm for Global Equities Technology