

Building on a FIX Foundation: **Finding Real Business Value in Connectivity**

For the past several years, as FIX has matured to become the public standard for transactional connectivity across our industry, the focus of discussion in all circles—FPL, vendors, the press, the FIX community—has been on getting connected. Build the network, lay the foundation, get it all wired together. First-movers had a brief advantage while they were able to do electronically what the competition was doing over the phone, but within a few short years major areas of the industry as a whole had moved to a more electronic business model.

FIX capability quickly ceased being a competitive advantage and has now come to be regarded as what it really is: expensive, high-maintenance plumbing. And in most cases, plumbing that connects disparate applications and introduces its own set of problems around management, visibility, and reliability.

The challenge before the industry today is to turn that expensive plumbing into real, measurable business value. The key to doing this lies in recognizing what FIX connectivity represents—a high-speed, large-scale network of real-time customer and business partner relationships—and proactively managing that connectivity and the information flowing across it to create value.

The name for this new category of business solutions is TCM: Transactional Connectivity Management. Two years from today FIX engine vendors will be extinct and leading financial firms will all have TCM solutions in place for proactively managing all aspects of their transactional connectivity across the enterprise.



Bad Times for FIX Engine Vendors

Penetration of FIX capabilities into financial firms globally has reached a tipping point: support for FIX connectivity today does not create a competitive advantage for a trading firm; rather, it is a basic requirement for staying alive. There is still a lot of room for growth and expansion in terms of usage—FIX has only just begun to expand beyond equities and behind the front office trading desk—but this growth is inevitable because of the profound impact FIX connectivity has had where it began: the equities trading desk.

Ironically, FIX engine vendors are a dying breed. The harsh reality that has all but killed off many of the early leaders in the FIX engine vendor space is simply that customers have begun to recognize FIX connectivity for what it is: plumbing, like network cables and phone lines. It was inevitable that the basic FIX engine would become commoditized, and as products become commoditized their prices get driven into the ground. The customer that pays for a FIX engine today is really paying for the support they hope they'll get from the vendor. The basic technology is available for free.

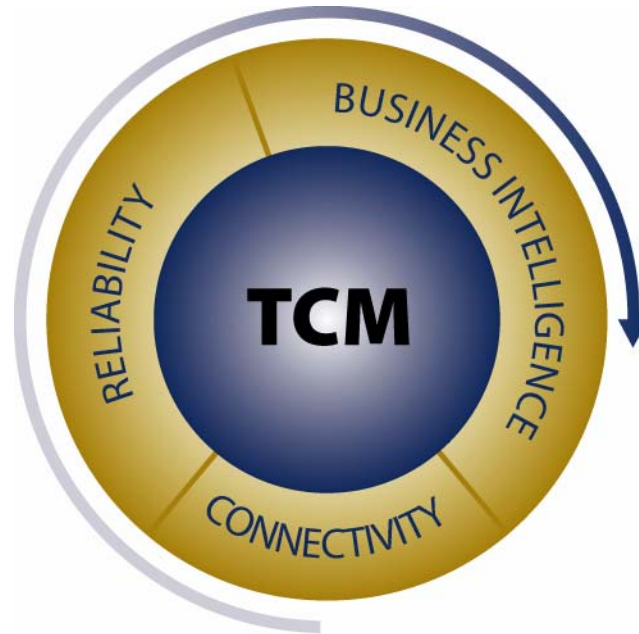
Expensive Plumbing

A second and more significant challenge causing big problems for FIX engine vendors is that the product they're selling doesn't really solve the problem completely. FIX was never the panacea that early adopters might have imagined it would be—the rapid uptake of FIX by firms for different purposes led to extensions and fragmentation and ultimately compatibility issues. The protocol, in some respects, was a victim of its own success. But the net of this is that a FIX engine never gave a customer plug-and-play connectivity—at best, buying a FIX engine would save a customer some development time. For the plumbing to even work correctly requires more than the engine itself: pre-production testing and certification, automated connection scheduling, monitoring of connection status and alerting when connectivity problems are detected.

Not surprisingly, we're beginning to see some FIX engine vendors announcing additional "stuff" around their core engine products. In most cases, this "stuff" takes the form of basic monitoring and administration tools—tools that are required to support any enterprise server in a production environment. But it's still just plumbing, and it misses the mark. Vendors who continue to treat FIX connectivity like plumbing will remain in a commodity business where shrinking margins reflect the absence of measurable business value to customers, and customers will ultimately disappear.

TCM: Tapping Business Intelligence

A FIX engine gets a firm connected. The right kinds of testing, administrative controls, and status monitoring capabilities around the FIX engine will only ensure that the connections are reliable. It is the more sophisticated business intelligence, in the form of transaction analysis and exception management, that will turn FIX connectivity into a competitive business advantage.



Transactional Connectivity Management (TCM) is a new category of enterprise solution for electronic trading that takes the foundation of transactional connectivity (e.g. the FIX engine) and builds value on top of that in the form of real-time analysis of transactions, systems, markets, and trading partners. The business value to be leveraged in a connectivity platform lives not in the network itself but in the communication happening across the wires—the information flowing through the network. TCM is about harnessing this real-time information and using it to create measurable business value.

- Real-time transaction flow analysis

By providing visibility throughout the entire transaction process, TCM can allow a firm to watch and analyze the flow of transactions across the entire enterprise, through FIX engines, order routing and order management systems, and even throughout post-trade processing. This capability enables a firm to detect bottlenecks and measure processing capacity in real-time on a global scale.

- Execution speed and quality

Measure execution speed for trades as they happen, and compare execution prices with dynamic information like market price or VWAP. Taken a step further, a firm can establish parameters around expected response time and order execution parameters and generate alerts or notifications when targets are missed—even make real-time adjustments to routing rules based on execution performance.

- Business exception monitoring

The opportunity for costly errors increases with the complexity of the systems environment and the volume and variety of electronic transactions. Connectivity—the plumbing—creates its own risks by introducing new points of failure and opportunities for errors in translation. TCM provides transparency across the environment and introduces capabilities for tracking and managing exceptions at the moment they happen rather than after the fact.

- Latency and throughput

Real-time measurement of transaction flows through systems and across the enterprise enables a firm to identify high-latency processes and make performance improvements before problems emerge. At best, this is dynamic performance tuning to continually improve processing capabilities; at worst, it's proactively addressing potential problems before they turn into costly real problems.

Not Just FIX Message Monitoring

The items listed above are only a few examples of the kinds of business value that can be derived from an enterprise TCM solution. Monitoring FIX logs or FIX engines doesn't do it—that's just making sure the plumbing works reliably. The real value comes from integrating all kinds of information: order and execution flows, market data, compliance data. Pull all that intelligence together in real-time to empower your traders—or your customers, or your trading systems—to make better business decisions, quicker, and be more competitive.

The important point here is that finding the real business value that exists in FIX and connectivity means looking a step beyond the operational infrastructure that makes electronic communication between systems possible. Stated another way: TCM is about harvesting the intelligence that derives from the electronic conversations themselves in the context of the real-time marketplace—and the relationships between a firm and its customers and trading partners.

The focus of connectivity should not be the FIX engine. Instead, connectivity should be about achieving a complete TCM solution around the messaging engine and across the network, business applications, customers, and trading partners. The business value grows with the sophistication of the TCM solution. The messaging engine is the core, but the real payoff comes with dynamically managing the connectivity to optimize the handling and execution of every single transaction flowing across the enterprise in the most efficient and informed way possible.



For more information about how TransactTools can help you put the right TCM solution in place to improve your business, visit www.transacttools.net or call +1.800.93.TOOLS