

Does FIX matter?



By Cydney Berry, Vice President, Professional Services, TransactTools Inc.



Does FIX matter? Does IT matter? These two questions are inextricably linked because the inherent value in FIX becomes realized through the successful implementation of IT solutions. IT is the enabler. But are we making it matter? Put another way, are we getting the value out of FIX that all of us are working so hard for? Yes and No.

There has been a significant debate raging ever since Nicholas Carr's May 2003 article, "IT Doesn't Matter" in the Harvard Business Review. In the article, Mr Carr challenges the relevance of IT as a competitive differentiator for

business. Since its publication, many heavyweights from a broad range of industries have weighed in on this debate and many have landed, predictably, on the side of IT. "IT does matter" they say. Mr Carr's theories compare IT to the

railroads and electric infrastructures that were once scarce and now are part of the infrastructure of commerce, thus no longer competitive advantages to business. Mr Carr claims that IT infrastructural capabilities – networks, PCs, commoditized business processes – are now ubiquitous and that bytes of data are now indistinguishable commodities flowing across a global network. Thus, he concludes, strategic advantages are quickly disappearing. These premises and conclusions are attacked by his detractors as misinformed and off-base. The debate is a welcomed one and has many thought-provoking angles. However, it is clear that Mr Carr has not given a significant amount of thought to aspects of IT like FIX and its potential to provide real advantage to those organizations that seek to create it.

The ability to make FIX matter is critical to the long-term success of the protocol and the incremental and long-term value that the industry can get from it.

While I do not agree with the basic points of Mr Carr's assertions, there are some very interesting aspects about this debate that have a direct and immediate correlation to the most important question about FIX right now. How is FIX creating sustainable competitive advantage and value? The ability to make FIX matter is critical to the long-term success of the protocol and the incremental and long-term value that the industry can get from it. Organizations should immediately begin preparing themselves to capitalize on the strategic advantages that FIX can enable.

No one can argue against the significance of FIX and its impact on financial services business model innovations over the last 10 years. However, many factors have converged over the last five years to create a lot of skepticism in IT. These factors have caused many to question whether or not IT can really drive value or at least to consider that IT may have hit a plateau. And by association, this impacts the innovation and value that FIX can continue to drive. The dot-bomb, the overspending, the economy, the cost of technology, the implementation time, the complexities and lack of standards all are having an impact on current viewpoints of IT and its role. People all across the industry

are questioning the value and still licking their wounds. After years of spending on IT without really questioning anything, everyone is questioning everything now.

We need to look further to understand the underlying cause of these concerns because, incorrectly diagnosed, this issue may divert attention and investment dollars away from FIX and its strategic longer-term implications. This current interference masks a very systemic frustration with the whole notion of IT as a strategic enabler, a value driver, and a sustainable competitive advantage. It has not been easy over the last 10 years to push industry innovation and to create value in the organization through IT-enabled FIX initiatives. There have been a lot of challenges, lots of failures, and some strong successes. For most organizations, however, it has been hit or miss. In IT, most of the time, researchers, pundits, and other industry leaders focus on the innovation itself and the potential for returns. That in and of itself is just not enough. The pace of innovation has outstripped our ability to successfully implement IT solutions that realize the potential value in that innovation.

There is a big elephant in the room that even some industry heavyweights fail to acknowledge and diagnose. That is our real inability to capitalize – really capitalize – on value through the implementation of business applications or software. Business applications are defined as non-infrastructure technologies and software that are created to support and manage business process innovations and improvements. FIX is quickly progressing beyond what can be considered its infrastructural value: managing reliable electronic connectivity with trading partners. The real value from FIX will be driven through business application components that allow companies to innovate and create sustainable competitive advantages.

There have certainly been some significant business application successes over the years – entire business processes have been redefined through ERP and CRM solutions, and a multi-billion dollar software industry has been created. What the IT industry is missing are application-level implementation successes that are just part of the infrastructure. Like turning on the car, switching on the light, picking up the phone, sending the IP packet. Until we conquer this issue on the business applications side of IT, all those technology advances will not get us anywhere. And the skepticism will continue.

Think about the business of building applications and application architectures. It is definitely not easy. Even if you buy commercially available software “off the shelf”, there is still a large effort to integrate it into the organization. It’s rare that a large implementation can be called a big success. No one is happy with IT. And there are countless stories about the many systemic problems and big failures. Departmental IT retreats into its silos because that is all it can control and that in itself creates major issues down the line. The resulting creation is organizations that have a fragmented applications infrastructure, such as a retailer with 20 definitions of “customer” across 20 databases, three different FIX engines in use at the same company... and the list goes on. This makes it extremely difficult to quickly implement IT solutions that can take a more holistic look at the enterprise. It is really, really messy out there and it has not improved much throughout all these advancements in technology. Innovation is outstripping our ability to implement such that it cracks the foundation for future success. This seriously undermines corporate agility and sustainable competitive advantage. It’s not even possible to get where Mr Carr claims IT is or is going in the near term.

We need to stop in our tracks and ensure that what we are doing today will not require a “do over” in three years...

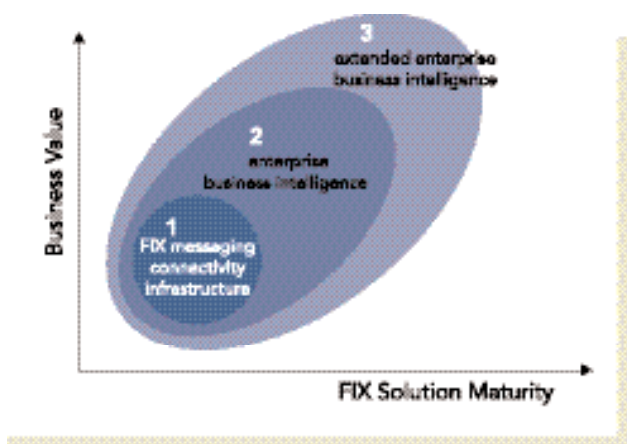
Make FIX matter

And along comes FIX. What an unbelievable opportunity. It’s all about value, competitive advantage, opportunity, changing the face of markets, STP, etc. So how do we keep moving towards those great visions that we had for FIX? By being practical about the visions and building a roadmap to FIX enablement that allows us to consistently and successfully execute on those visions. We need to stop in our tracks and ensure that what we are doing today will not require a “do over” in three years, that the vision keeps progressing, and that firms can continue to innovate to support new products, provide customer value, create new business models, new algorithmic methods, etc. We need to create a platform for sustainable, successful implementation of enabling technologies on top of FIX.

It’s easy to look at the changes in the financial services industry with the advent of FIX and to see the value derived from firms getting connected to their trading partners and the advancements towards STP. But this is just the beginning and if firms do not take stock now, the value and competitive advantage are never going to materialize. The IT of FIX is no different than the IT of anything. The challenges are mostly the same, but the opportunities to create something different are enormous. In no other industry, at the business level, does there exist such a standard. Standards have come and gone. With the advent of FIX, there is an unprecedented opportunity. The steps that organizations take today are critical to build the foundation to take advantage of that opportunity.

FIX solution maturity model

To understand where we are heading with FIX, it is necessary to look at where we are today. Not where FIX as a protocol is today, but how FIX is implemented in the organization. We need to align ourselves with the vision and focus on IT execution. Most importantly, we need to understand what we are building today and what the foundation is for tomorrow. The evolution of FIX solutions and the resulting business value can be viewed as a maturity model as depicted below. As FIX solutions mature, there are significant value gains beyond the basic implementation of a FIX engine, beyond FIX as an infrastructural utility. We need to be building frameworks to capitalize on what will be Level 2 and Level 3 value in FIX solution maturity.



Most organizations today are still at Level 1, deriving value from the FIX engine and the most basic uses of FIX. Level 2 represents an immediate opportunity to leverage

enterprise-wide information to provide significant value on top of FIX. Level 3 is the goal and will provide organizations with the most significant opportunities.

Every decision made today should be weighed against where FIX solutions are heading in terms of the potential value to the organization. It's pretty simple to think about connecting to trading partners via FIX, and it's grown into somewhat of a commodity market. It is now straightforward to get connected via FIX, but the real challenge lies beyond that.

Every decision made today should be weighed against where FIX solutions are heading in terms of the potential value to the organization.

Although the protocol is 10 years old, the business value that can be derived from FIX is just beginning. Right now, most financial services organizations are implementing, upgrading or expanding their FIX capabilities through in-house or third party FIX engines. For most, it's still all about the FIX engine.

Organizations must now begin to take a broader view of the FIX-enabled enterprise. It is obviously important to continue to ensure the integrity, improvement and supportability of the FIX protocol through the FIX Protocol Ltd. organization and other supporting entities. But it is no longer about the protocol itself. The ability to provide continuous value will ultimately serve the FIX protocol well; however, if progress stops at the FIX engine then the protocol itself may be compromised. Nevertheless, the FIX engine itself is extremely critical to the entire model and must be considered very carefully.

Stage 1. FIX and messaging architecture

We are in the nascent stages of this revolution. The FIX engine is the foundation, but only the beginning of what we can get out of this opportunity. The unbelievably compelling aspect of FIX is the data architecture. No other industry has it. And for all its individual variations and deviations, there is still a common data architecture. But it is not a slam dunk that all FIX engines can deftly handle a data architecture with enough flexibility to seamlessly integrate

other protocols. The critical point here is that Stage 1 must integrate other protocols as well as provide flexibility to support variations in FIX versions and implementation characteristics and make it totally transparent to future stages. Organizations should evaluate and design solutions based on these critical characteristics.

Although the protocol is 10 years old, the business value that can be derived from FIX is just beginning.

Stage 2. Enterprise business intelligence

Once a solid FIX and connectivity architecture is in place, organizations can begin to really look at meaningful patterns and information across the organization. There are no limits to the ways in which organizations can begin to derive value from the data within its four walls. It begins with basic management of the reliability and integrity of transactions. But it quickly goes beyond that to departmental and enterprise level analysis of trading data and information. All in real time.

Stage 3. Extended enterprise business intelligence

The financial services industry has always been one large web of trading partners with unique business interdependencies. What used to be phone, fax and proprietary communications has become automated into a virtual web connecting infinite trading partners and supporting many new and different business relationships. Seamless integration of external information and the ability to peer beyond the four walls of the organization provide immense amounts of information that can provide significant competitive advantages to those firms that take advantage of it.

Contrary to what Mr Carr says, we have a boundless opportunity to create value from FIX-enabled IT solutions. Does FIX matter? Right now, Yes. In the future, only to those organizations that recognize the strategic opportunities, create an IT environment that takes advantage of those opportunities, and implement the vision of what FIX can be. **FIX**