

Can Lightweights KO the OMS Heavyweights?

By failing to provide scaled-down alternatives, the leading vendors of order management systems may have trouble selling to smaller buy-side firms.

By **ROBERT STOWSKY**

Since their beginnings nearly a decade ago, the dominant order management system (OMS) vendors have focused their sales and marketing efforts on investment management firms with billions of dollars in assets under management. The number of these larger buy-side firms left who have not purchased an OMS but developed one in-house, or are willing to incur the time and cost of switching to a new system has shrunk with each year. As a result, leading OMS vendors like Charles River and Macgregor are looking for new venues to ply their wares. In this marketplace, that often means smaller investment firms.

As OMS vendors look to sell to smaller firms, they face stiff competition from newcomers like LatentZero and Kestrel, as well as vendors like Advent, Line Data and INDATA that have already entered this hot market segment. Further competition awaits in the hedge fund arena from vendors like Beauchamp Financial, Eze Castle and SS&C. Additionally, OMS vendors also have to deal with stalwarts Reuters, Sungard and Thomson, which have offerings at every level.

As if this field weren't crowded enough, the biggest competition may come from that ubiquitous portfolio modeling and order

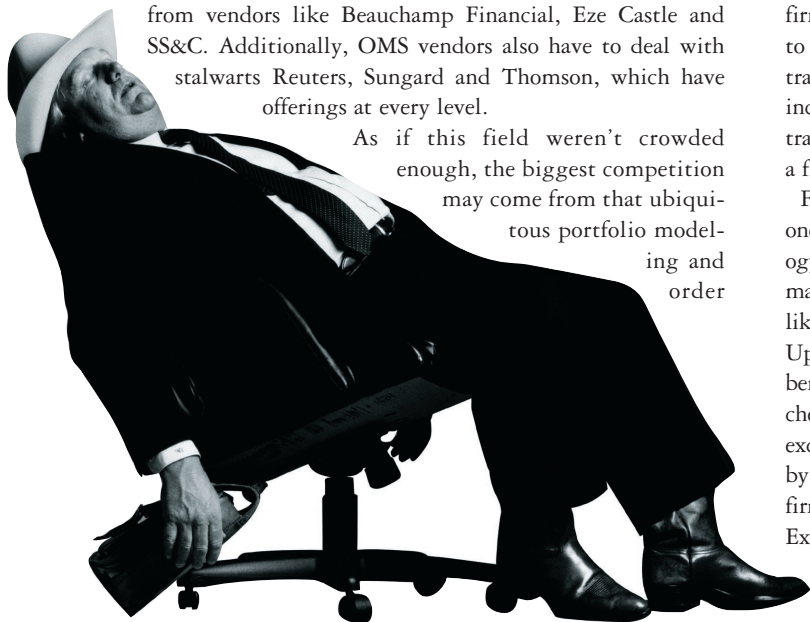
management application, Microsoft Excel. The venerable spreadsheet is still used by firms across the board, regardless of how much money they manage.

For an investment manager overseeing \$1 billion or less in assets, it could be difficult to justify the purchase of a high-end, feature-rich, software application with its given requirements. Aside from additional hardware, a high-end OMS usually requires a relational database management system such as Oracle, Sybase or Microsoft SQL Server and the people with the knowledge to implement and support these systems. While these requirements are well within the reach of large firms with a dedicated IT staff, a small firm's entire staff may consist of a dozen or so people. While these people are dedicated to the business of investment management, they have neither the expertise nor the time to support these massive systems. For most of these firms, software must either have the same support requirements as Microsoft Office, or be outsourced to a dedicated third party.

Breaking Up Is Hard To Do

The main selling point for a heavyweight order management system may also be its downfall when targeting smaller firms. These OMSes are exceptional because of their ability to provide a complete solution for the portfolio manager and trading desk. The high-end OMSes offer integrated features, including portfolio modeling, pre-trade compliance and trade blotter functionality. Each of these features should be a fixture in today's investment management environment.

For a small firm, some of these pieces may already exist in one form or another. Firms that have focused their technology spending on their primary business, constructing and managing portfolios of assets, may have a standalone product like the Upstream Investment Management System from Upstream Technologies. Such a system provides functions for benchmark tracking, optimization, replication, compliance checking and risk management that, in some cases, may exceed the investment management functionality provided by an integrated OMS. At the other end of the spectrum are firms that invested substantial effort in developing models in Excel using a combination of custom macros and third-party add-in products. The user of either of these technologies covers the portfolio management side of the business.



Even for the large OMSes that claim to be modular and scalable, there is an underlying assumption that eventually all of the modules will be used. These systems were designed to meet the needs of their primary customer: the large money manager. Specific, new functionality is usually added to these systems when a critical mass of customers has clamored for it. This evolution has created OMSes that are large and require months to implement. The fact that there are now systems integrators who specialize almost entirely in installing the large OMS products speaks to the complexity and cost of these systems.

Vendors have made previous attempts to scale down their offerings by turning off features or reducing flexibility. These efforts resulted in systems that still carried the same support requirements in a one-size-fits-all package. A spokesperson for one OMS vendors remarked at a recent panel discussion that the vendor's attempt to build a scaled-down system failed because each investment manager needed a different set of features enabled or disabled to meet his or her requirements. This level of customization made trying to deliver a low cost, out-of-the-box solution an unprofitable venture.

By simply repackaging an existing system for a smaller firm, the customer ends up paying for a large piece of software whose full potential may never be exploited.

The Lightweights Enter the Ring

Small firms need a system that can receive orders from the asset manager, execute those orders, allocate the trades and send the resulting information to the appropriate external systems for portfolio and risk management, and accounting. There are a number of ways to accomplish this. Application service providers like TradingScreen offer Web-based products that allow the trader to connect to both ECNs and ATSS like Instinet, Tradeweb and FXall, as well as to specific brokers. These products allow traders to manage their orders and allow integration to a firm's internal systems, including Excel spreadsheets. By using a product like TradingScreen, a firm does not have to add systems or staff to support the OMS, nor does it need to worry about connectivity to counterparties, as the vendor maintains both.

Another approach is to make the spreadsheet the OMS. Both CameronFIX Excel from Cameron Systems and APT's FIXcel provide a completely functional FIX engine as an Excel add-in. Using these add-ins, traders can build their own lightweight OMS using Excel's Visual Basic for Applications and have them tie in directly with their spreadsheet-based portfolio models. For firms that want to keep their spreadsheet models, but don't want to build an Excel-based OMS, VhaYu Technologies has built a lightweight OMS on top of its SURETick real-time data store and analytics engine. Originally targeted at hedge funds for its speed,

VhaYu's offering has been gaining popularity with small investment advisors by offering many of the same features for trading as the higher-end OMS without requiring the added expense of a separate data base management system. VhaYu's system runs in a Microsoft environment and allows trades to be generated directly from an Excel-based model.

Why Does All This Matter?

The high-end OMSes have enabled their large buy-side users to streamline their operations throughout the trade lifecycle. In addition to providing a direct link between the portfolio manager and the trading desk, these systems allow important post-trade information, such as allocations, to be sent electronically to brokers and custodians. These parties are currently devoting a large amount of time and money to processing this same type of information being sent by their

People at small firms are focused on the business of investment management, and they have neither the time nor the expertise to support massive OMS systems.

smaller clients by fax and e-mail. As both brokers and custodians look for ways to control their own costs, they are beginning to consider charging a premium to those customers that require manual processing.

Another advantage gained by OMS users is the need to enter the trade information only once and have it communicated to all the other systems in the firm. A firm that does not have this ability faces the extra costs of re-entering data and repairing trades that have failed because of data entry errors. For the smaller firm, the costs of not being automated may eventually drive them out of business.

The investment industry often focuses on what the big name players are doing to adjust to the demands of faster moving markets and new regulations. Collectively, however, the smaller firms make up the majority of the volume of assets under management. Not addressing their needs may have dire consequences for the industry as a whole by marginalizing both the smaller firms who together are a leading source of liquidity to the markets, and their customers, with whom they have established a relationship of trust and service. ●

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