One Size Doesn't Fit All

Risky Business for Hedge Funds When Selecting a Business-Critical System

Brian Roberti, Director of Sales & Marketing at G2 Systems examines how to mitigate the risks faced by Hedge Fund Managers when selecting a business-critical system.

The most effective way for Hedge Funds to mitigate selection risk when deciding on business-critical systems would be a miraculous ability to time-travel. If only a Fund could have the foresight to anticipate the future needs of the company and resultant gaps in tomorrow's software solutions. How about being able to look forward to a time when the system will be truly entrenched within your business, having that 'aha' moment and realizing the impact and pain of having to switch to a different platform or to prematurely upgrade the existing one to support business growth and new strategies. Conversely, the ability to travel back in time to when you made a particular decision, to recognize exactly why you made that choice, and be able to defend it on the strength of a well-documented procurement process with buy-in from key stakeholders would prove invaluable for offensive and defensive reasons. Not a bad super-power to have as far as supernatural abilities go.

When Hedge Funds shop for business-critical systems, the first step in mitigating selection risk should be to conduct a thorough evaluation of requirements. This analysis typically breaks down into four key categories – namely functionality, operational efficiency, ability to integrate with third-party applications and counterparties, and ability to meet local reporting and regulatory obligations.

To help properly prepare for the system evaluation step, it is best to assume vendors all too often over-promise and under-deliver. In order to debunk their 'we do everything' myth, requirements are best framed within an evaluation matrix, specifying desired systems components weighted by priority, and then considered in respect to what is supplied 'out-of-the-box.' It sounds simple, but ensuring that these prioritized requirements are sufficiently addressed, maintained, and adaptive is fundamentally important, and provides the necessary flexibility as business needs change. Follow-through is called for here -- there's no point in framing this all out if there's no intention to stick with a disciplined due

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diligence process from beginning to decision to implementation to production.

Naturally, this process must involve key stakeholders from across the business functions – representing technology, operations, and accounting – all of whom will have their own set of priorities. By considering their different views to identify key requirements as well as potential issues, the Hedge Fund will create a more complete picture of present needs, making it easier to predict future firm-wide concerns while also helping to identify and mind the gaps. Employing the services of a consultative third party can also add value, providing an arbitrational and objective view that takes much of the emotion out of the process. The benefit of this type of approach is the ability to address risk concerns across functional areas while promoting increased operational efficiencies, better workflow and systems integration, and enhanced reporting delivery.

Once the requirements have been framed and documented and the potential best-fit solutions identified, the next step is to engage and interact with prospective systems providers. Any gaps in vendor solutions must be identified, and build-out versus buy options should be considered to address these limitations. There are typically two delivery options – on-premise software or hosted (SaaS)/managed services (aka BPO). The latter can provide a pragmatic alternative in scenarios where it is preferable for staff expertise to remain with the outsource provider. Discussions with the system providers must also cover implementation considerations including any required data conversions, the capacity and capabilities for customizing the system, and service levels especially for production support.

After all is said and done, the total cost of the system will be much more than the acquisition and initial implementation costs, especially if you do not have a holistic, forward-thinking approach that considers what is needed as the business scales. Indeed, the final piece to the selection risk puzzle is TCO (total cost of ownership).

Certainly, it is necessary to be wary of systems pitched as the 'low-cost' alternative, recognizing that TCO entails both the acquisition of the platform and the ongoing cost of maintenance, support and future upgrades. The former can literally be crushed by the latter, particularly if the system proves inflexible and unable to adapt to the ever-evolving business and regulatory environment.

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As internal and external pressures exert the need for change in systems over time, the solution employed will need to be revisited and customized to the firm's unique business objectives and exposure to various aspects of risk. There are clear benefits to having a system that can be tailored, at least to some extent, by the power users versus having to deploy IT resources that a firm may or may not have dependent on their size and make-up.

Hedge Funds need to look to the future when undertaking the initial analyses of and decisions based upon system risk. There is a lot to be said for the use of simple tools to get a job done. On the flip side, Hedge Funds that have launched using Excel as their cornerstone system are all too quickly confronted with Excel's limitations in handling the complexities of financial securities and the requirements of an enterprise class solution and too often wait to make a change until the Fund reaches a critical point where the system falls over, becomes too unwieldy or simply does not have what is required to adequately support business operations, not to mention compliance and regulatory requirements.

Typically the deeper and farther one goes with a system, the greater and more painful are the switching costs. If managed poorly, it can even put business-critical processes in jeopardy.

Therefore, it is advisable to take a consultative, thoughtful approach when making the initial system decision. When it comes to the risky but necessary business of system selection, your starting point has a huge impact on the path you may ultimately travel and consequently where your business has the potential to go. There is no one size fits all.

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