Market Data: Taking Control of the Cost Spiral

High performance. Delivered.

accenture
Strategy | Consulting | Digital | Technology | Operations
Since the turbulent times of 2008, investment banks, exchanges and market contributors have undergone significant transformation. Risk and regulatory requirements, instruments and products have become more complex, and more transactions are automated today than ever before. In this context, market data has become an increasingly critical component for investment banks, touching nearly every aspect of their business.

A recent Burton-Taylor report projects that spending on market data will continue to rise in 2016 and beyond.¹ This is good news for data vendors, but rather bad news for the rest of the industry. Business needs and regulatory pressures are pushing the industry to consume more and more data, and data suppliers are getting more creative with how they license and account for data usage. Investment banks are being subjected to frequent usage audits and find themselves at risk of incurring significant fees for non-compliance with current vendor and exchange contracts.

Recent efforts in belt-tightening across the investment banking industry have exposed costly inefficiencies in market data management, including siloed procurement, ineffective demand/usage management, growing data costs, and inadequate technology for processing and analyzing the growing volume of data.

As a result, many organizations are beginning to recognize that market data management is a strategic function that requires the same level of attention, efficiency and governance as other key areas of operations. Accenture experience suggests that investment banks that have taken initial steps to consolidate data procurement have seen overall savings of up to 20 percent—and additional optimization efforts could potentially double that figure.
Investment banks need a comprehensive market data transformation plan that focuses on creating recurring value and developing collaborative and sustainable relationships among market data vendors, IT and business units.

Managing external data
As the number of data vendors has grown and the blurring of offerings for external data feeds clouds the landscape, market data management has become a true challenge for investment banks. Ongoing regulatory change and business pressures related to cost control and compliance only intensify the challenge. Faced with ever-growing regulatory burdens, new data sources, and new financial instruments and products, chief operating officers (COOs) are asking themselves how they can control their data destiny.

Many investment banks are finding themselves unprepared to deal with the key issues at hand:

- Cost reduction across the market data operations cycle
- The hidden costs of upgrading and downgrading
- Changes in market data licensing
- Investments to compensate for existing platform deficiencies
- New feeds and aggregation technologies
- Audits by market data vendors and exchanges

A recent trend in the industry has seen a number of organizations taking a holistic approach to market data and market data technology operations. Their goal is to develop an overall strategy based on a “fit for purpose” methodology, meaning they establish requirements and then identify market data sources. Emphasis is placed on how market data is licensed, with preference given to sources that license solely by instrument (as opposed to instrument and business activity). In this way, an investment bank avoiding paying for a single instrument for a single user and application multiple times over.

A comprehensive program for control and optimization of market data

Source: Accenture Research

Global market data/analysis spending (in billions USD)

Source: Burton-Taylor International Consulting LLC

A comprehensive program for control and optimization of market data

Source: Accenture Research
Consolidation and cost reduction

The pursuit of cost reduction using traditional methods has often adversely affected the ability of investment banks to secure additional cost savings in the long term. One of the more popular cost-saving approaches in recent history has been vendor consolidation, with some organizations going so far as to rely on a single supplier. An unintended consequence of this approach is that companies are left with little, if any, leverage to negotiate lower prices. A more effective approach may be found in leveraging new technologies to consolidate distribution throughout the firm while maintaining a broader data vendor landscape.

Investment banks need to be aware of what data they require, which applications use it and how it is licensed in order to recognize savings. Simply reducing the number of data sources is no longer producing the level of savings it has in the past; in some cases, it is even having the opposite effect.

There is broad agreement across the market data community that most chief information officers (CIOs) and chief operating officers (COOs) are aware of the cost of external data feeds. On the other hand, many companies admit that they are likely not managing data usage properly, leading to potential underutilization and waste. As a result, most firms have begun efforts to manage the usage of data in an attempt to right-size their infrastructure and reduce costs.

Consider this against a backdrop where the overall growth rate in financial data, of which market data is a key component, is running at 50 percent or more and global spending on external market data and analysis reached $26 billion in 2014.
Start controlling your data destiny

- Look for supplier and product consolidation opportunities
- Be proactive—don’t be managed by the supplier
- Maintain your inventory system organization-wide
- Know the details of your inventory and strive for cost transparency
- Integrate market data management into your broader data governance strategy
- Talk to your users regularly, not just at contract time

Source: Accenture Research

Where to draw the line

Investment banks need a comprehensive market data transformation plan that focuses on creating recurring value and developing collaborative and sustainable relationships among market data vendors, IT and business units. That means accepting that contract compliance audits are the new norm and will be part of the ongoing vendor-client relationship.

A full internal data audit is the first step in identifying usage duplication and redundancies. Ask yourself:

- **Which data vendors are critical to my business and are there alternatives?** Some vendors have increased prices significantly in the hope of regaining profitability lost during the financial crisis.
- **Is an enterprise-wide contract warranted?** What is the appropriate data license model and how many licenses do we really need?
- **Is a multi-year agreement warranted?** What are the costs and benefits of entering into a long-term relationship versus maintaining vendor flexibility? As barriers to entry fall and Internet speed increases, some providers might be losing their competitive edge. Incumbent providers, such as Bloomberg and Thomson Reuters, still command impressive market shares, but others—including Markit, IDC, S&P Capital IQ and ACTIV Financial—are gaining ground.

Who’s in charge?

CIOs and COOs need to ask themselves who is in charge and adopt a clear strategy to manage vendors—or risk being managed themselves. The following questions need to be considered:

- How many data vendors do we currently use?
- Where is there overlap or redundancy?
- Which products in our bundle are we paying for but not using?
- Can the critical products we need be obtained elsewhere at an equal quality and a lower cost?
- How many licenses are underutilized?

Trying to "do more with less" won’t cut it as a solution. Being armed with real knowledge of your market data environment is the only way to achieve success.

Key market drivers for market data needs

Source: Accenture Research

---

1 Burton-Taylor International Consulting LLC, Global Market Data Demand, Revenue, Segment & Regional Growth Forecasts, 2015 & 2016
About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 358,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Its home page is www.accenture.com.

Contact Us

To discuss any of the ideas presented in this paper, please contact:

Mark Watson
Boston
mark.a.watson@accenture.com

Paul Obrocki
Toronto
paul.j.obrocki@accenture.com

Chris Brodersen
New York
c.brodersen@accenture.com

Disclaimer

This report has been prepared by and is distributed by Accenture. This document is for information purposes. No part of this document may be reproduced in any manner without the written permission of Accenture. While we take precautions to ensure that the source and the information we base our judgments on is reliable, we do not represent that this information is accurate or complete and it should not be relied upon as such. It is provided with the understanding that Accenture is not acting in a fiduciary capacity. Opinions expressed herein are subject to change without notice.