Navigating the tech selection minefield: A six-stage process

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When it comes to selecting and implementing new technology, there are some asset management firms that know precisely what they want and need. Then there are those that think they know. And finally, there are those that know they don't know.

Whichever category your firm falls into, procuring a new system can be a minefield. It is easy for something to go wrong at every stage and some of the decisions a firm takes can help or hinder its operations – and its long-term strategy – for years to come. So, it pays to hear from people who can tell you where the pitfalls lie.

At the very least, bringing in consultants to help manage a technology selection process can remove much of the heavy lifting, saving firms valuable time and letting them focus on their core business.

After years of working with buy-side firms of all types, we've developed our own process to ensure that the technology an asset manager ends up choosing is truly what it needs. The process has six stages, and each one, in its way, is critical. Together, they add up to a kind of tech procurement best practice.

Phase 1 – Getting the lay of the land

This is the getting-to-know-you phase, when a trading firm meets with consultants like Ergo Consultancy to talk about requirements, objectives and options. The firm often will have a view that it wants to buy a new system of one kind or another. It may be for trading, order management, risk management or middle- and back-office functions. Whatever the target purchase is, this stage involves an initial discussion about the firm's requirements.

One of the odd things about this phase is, often a firm believes it knows what it wants, but once you scratch the surface it becomes clear that their real needs are actually different. For instance, these discussions may highlight how addressing one set of issues offers an opportunity to address another operational aspect which has held the firm back.

In this stage, there are two things we always want to do. One is to gain a clear understanding of the current operating model. The other is to hear from stakeholders. Technology decisions are almost always better if you involve people who will use the new system, not just the head of the fund or the COO.

Phase 2 – RFPs and due diligence

This phase involves drawing up requests for proposals (RFPs). Before we can do that, however, we need to make sure everyone is agreed on what the new operating model will look like. A firm might want to start with a clean sheet of paper and think about an ideal scenario. Or, it may want to go for a more evolutionary approach, starting with what it has and seeing what might come from adjustments.

Once those discussions have been held, bespoke RFPs can be prepared. Consultants can help here not only by drafting and issuing RFPs, but also by collating the responses and working out the pros and cons of different options. From this, we can present a detailed picture of what each vendor can offer and build potential timeframes for implementation.

Any consultants involved in this phase need to be thoroughly up to date as to what is available in the marketplace. But the value firms like Ergo offer extends beyond that. Using consultants allows for anonymity, which may be valuable if a fund does not want to advertise to its current suppliers that it is considering other options. Also, the buy-side firm avoids getting inundated with sales calls. The consultants can field all of those so that the fund can focus on its core business.

As the RFPs return, we would also ensure due diligence on the responses. Anything presented to the client in Phase 3 needs to have been checked out. There's no room for overoptimistic scenarios or pitches that have not been stress-tested.

Phase 3 – The beauty parade

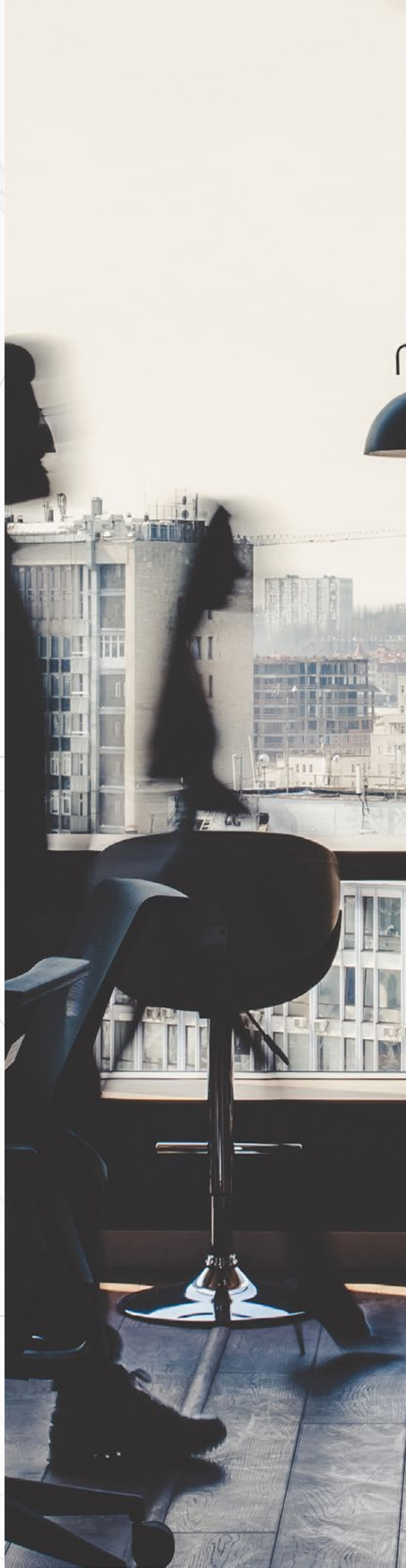
After the RFPs have come back and been checked, a short list is made. Then, it's time for the client to see what's on offer.

In our case, we would not only arrange the presentations, but also advise the client in advance on questions it could ask to help it make a decision. The questions may be different for each supplier. Because we have been working with the vendors in this sector for years and know their strengths, we're in a position to help generate questions that the client might not know to ask.

If needed, we could then work with the client to help with any internal deliberation as they select the firm they want to go with.

Phase 4 – The L word

Many firms are so focused on the first three phases that they don't realise how critical Phase 4 is. The L in this case stands for Legal. This part of the process will generally be dictated by a client's own internal policies and by the flexibility that a supplier has in tailoring its contracts.



Phase 4 can involve a lot of back-and-forth. The client may have clauses it deems crucial. The supplier may have red lines that cannot be crossed. Somehow, those two sides need to be married. For a large firm, the process may take four to six weeks or more. It's important that funds factor the time that Phase 4 can take into their own schedules.

While it may be frustrating for trading firms that are eager to start using new technology as quickly as possible, it's important that they bear in mind that choosing and installing a new system means they are entering a long-term relationship. If there's one phase that can trip a fund up, it's this one.

Phase 5 – Implementation

The I's have been dotted, the T's have been crossed and it's time to get the new system implemented. In this stage, we would formalise the new target operating model discussed in phase two. We need to know how a new system will fit with the firm's other systems.

This essentially is a project management phase. We identify deliverables and dependencies, building a timeline for the individual pieces of work that need to be done. Typically, we would create a working group with the client so that each part of the process can be signed off by the right people at the firm, using a RACI matrix (Responsible, Accountable, Consulted and Informed).

Phase 6 – The green light

The final phase involves user acceptance testing, training and documentation. The documentation involves much more than a user manual. It includes a description of the new operating model, flowcharts, business continuity planning, policies and procedures.

At long last, the firm is ready to move to a live environment. First, test trades are conducted with the new system. A firm then may choose to have a hand-shake approach, where the old system stops and the new one begins to handle 100% of the trades. Or, it can adopt a phased approach, with some of its trading taking place on the old system while other parts go through the new one. Either way, there are risks that must be managed. Trades are going into the market to be executed, which means they are FCA-reportable. Hiccups at this stage can be expensive.

Budgets and beyond

There are a lot of factors that come into play in the tech procurement process, some obvious and others not. Many firms like to focus on factors such as cost, performance and time to market. But there are also the less-obvious ones, such as the language in a legal document, the benefit of anonymity or the degree to which stakeholders' views have been taken into account.

Regardless of how the different factors are weighed, firms need to remember one thing above all else: There's far more at stake than a chunk of an IT budget. A firm's competitive advantage, its strategy and its vision for the future can all be directly affected by the decisions taken during these six phases.