



Point of View
Financial Services

Market Data Management
An Identity Crisis



Market Data Management Function – An Identity Crisis

The Market Data Management function is currently suffering from what some might describe as an identity crisis. Its purpose and value in many organizations is currently being whipsawed by strategic decision makers taking a one-dimensional approach to the discipline – save costs. Organizations that are taking this limited perspective are greatly restricting the influential capacity of a properly equipped team, skilled in the art of optimizing market data services and vendor relationships. The *purpose* is lost to those that are disbanding Market Data Teams, and the *value* is lost to those that under-allocate human and technical resources to effectively manage the program. In those cases, the function loses its “identity” with the benefits being underestimated, leadership hesitating to invest in a strengthened role, and objectives reduced to quid-pro-quo strategies which cannot realize any long term value.

Viewed through the limited lens of cost-savings, market data management is caught in a catch-22 - funding and executive support emerge when savings are found, but savings can only be found when funding and executive support for a program exists. This results in a stagnating environment where market data management strategies drift and languish until a “shock” occurs, including:

- A damaging vendor audit (Financial and reputational risk)
- Declining Capital Markets (Margin preservation)
- Management Change (Bold visions)

Unfortunately, when a “shock” does occur, if the market data team hasn’t established themselves as best suited to address and recommend strategies, they subsequently become pinned to unrealistic expectations by uninformed bravado from Leadership that

demand “cut costs by 20%”; or they are overrun by overzealous groups that swoop in with their robotically misplaced, one size fits all, tactics - “let’s look at our Top 10 vendors, dissect our agreements with them, and negotiate better deals”. The objective, in both of these trite approaches – achieving a statistical measure (cost percentage reduction) with little regard for long term program effectiveness. Without a strong value proposition, Market Data Management practitioners get swept into the fray, inherit unachievable goals, and in the extreme become the targets of austerity measure themselves.

This alarming scenario will happen where strategic decision-makers are disconnected from the realities of market data services, the unique contract terms undertaken, the users and their requirements, and the technology employed to distribute critical data. This paper discusses those issues in demonstrating how the oversimplification of market data management by those individuals dramatically increases operational risk, and greatly dilutes the returns available from a strong market data function.

What is Market Data Management?

Before continuing, it’s necessary to baseline what is meant by Market Data Management, and why it demands its own attention as a core service within Financial Services Firms.

Market Data Management is the administration and stewardship of market data services and third party relationships resulting from the procurement and usage of market data by a Firm.

Market Data is the broad term used in reference to the financial information necessary to research, account for, analyze, and trade

financial instruments of the world's markets across all asset classes.

Market Data professionals have long argued that their functional role is a complex, dynamic, and voluminous discipline requiring specialized skills and tools to achieve the extraordinary value and benefits available. However, the scope, skills, and tools required for success are ambiguous to non-market data literate staff, which creates a debate amongst firms on where the function is best positioned.

- Is market data management an art providing high value return... or is it simply a specialized Procurement function?
- Does the scope consist of 200-400 vendors (delivering 500-1500 products)... or is it a manageable list of the Top 10 (by spend) vendors?
- Is Managing Market Data a set of intricate processes managed by skilled individuals... or an elementary best-practices checklist of sequential steps?

In every case above we argue the former to be representative of a complex contract life cycle approach, while the latter is a commoditized view assuming programmatic, “production-line” thinking. This “commoditizing” approach has been recently observed by several Canadian sell-side firms whose strategies shifted to more minimalistic approaches:

- Reduce cost by cutting market data staff
- Increase the market data team mandate without increasing complement, or
- Collapse the function altogether under a broader (poorly correlated) group.

Too often we see firms take an oversimplified view of the function with the intricacies lost in 3 common “myths”.



Myth #1 - Market Data Management is a specialized Procurement Function

This thinking is an enormous distraction for market data professionals as it diminishes the debate about effectiveness i.e. “*how to apply the minimum standard required to negotiate a contract*”. This opposed to the ongoing, strategic relationship a Market Data Team manages internally (with business units) and externally (with critical Suppliers). Anecdotally, one of the authors of this paper led a study of daily activities performed by a Market Data Relationship Management team to conclude that **less than 12% of their time was dedicated to the Procurement activities**. Contract Management, Reporting/Analytics, and Relationship Management activities were in the top 3, characterizing the value-add activities that extend beyond the generic Procurement or Strategic Sourcing philosophy.

Myth #2 - Market Data Management’s primary purpose is to find Cost Savings

Market Data Teams are too often expected to find savings rather than manage relationships and facilitate effective decision-making. This philosophical difference means short-term tactics are encouraged (to demonstrate instant bottom-line results) VS. long-term strategic programs (designed to optimize market data services usage).

Myth #3 – Knowing your Top 8-10 Vendors is sufficient to know/manage Market Data

Many firms are shocked by the reality that there are greater than 500 Vendors and greater than 2000 products globally within the Market Data space. Even when they come to acknowledge this to be true, they still recoil back to their top 10 lists (their comfort zone of

available information) as the relevant representative sample from which market data strategy can be driven, through a crude “80/20” argument.

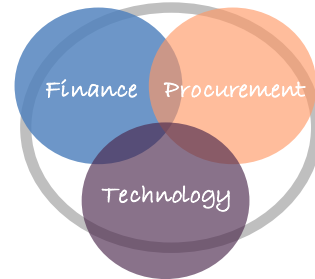


Lost in that sweeping statement about scope coverage is the necessary understanding of user requirements, financial obligations, and strategic alignments created with third party suppliers. All of which creates risk for the firm. That risk is only manageable with proper tools (e.g. Inventory Management System) and processes (e.g. service revalidation, change monitoring and tracking, reporting) driven through skilled business and vendor relationship managers. To correlate staffing and effort to only 10 Vendors severely impairs transparency and a firm’s ability to:

- Develop effective Business Management services (user business requirements)
- Maneuver Supply and Demand Management to suit the strategic interests of the firm
- Efficiently manage and subsequently optimize market data consumption (and resulting spend)

Arguably, one of the reasons most struggle with the value afforded by strong market data teams is due to “where” the Market Data function exists within a firm. It is neither an IT, Procurement, or Finance Function. It demonstrates characteristics of all three, with the added dimension of providing a high degree of relationship management that touches all parts of the firm – market data practitioners

serve as the bridge between Vendors and Internal Stakeholders (Users, Technology, Operations, Legal, Finance, HR, Senior Management).



Given the broad range of areas it touches, firms struggle to understand where it fits best, and often in the end, the discipline takes on the qualities of the group they fall under. This serves to re-inforce the identity crisis that makes market data management reactionary, instead of actively executing optimization practices.

Market Data Management – A value-proposition refresh

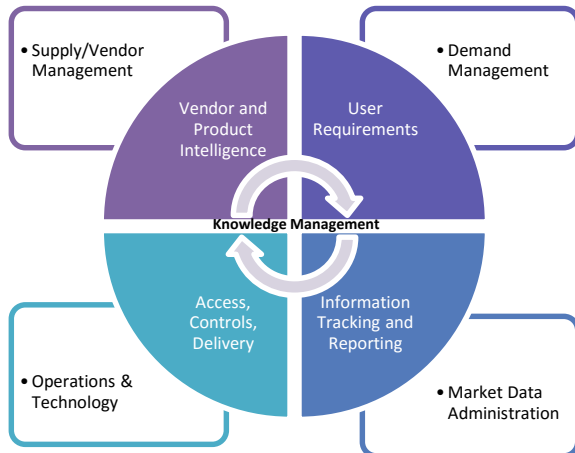
A properly resourced Market Data Management Team offers incredible value in the form of:

- a) mitigating operational risk
- b) maximizing value (usage)
- c) influencing corporate strategy (technology, relationships, spend), and
- d) driving efficiencies through accountability

Cost-savings should be viewed as a by-product, not the end result, of effective market data management. Through spend transparency, optimized usage, and clear decision-making at a strategic and tactical level, **appropriate spend** becomes the objective. With the emphasis on *why* a Top 3 operational expense item (and the resulting relationships) occur, Financial Services Firms can better adapt their cost structure to suit trading and investment strategies that maximize returns.

So...how does one realize the benefits of a highly effective market data management function?

- **Demand Management** – align user requirements with organizational strategy
- **Supply Management** – mitigate operational and third party dependency risk
- **Administration Management** – spend transparency to mitigate operational risk; build out knowledge center to support decision-making; analytics and reporting
- **Technology & Ops** – leverage and optimize technology, within the context of Data Management



To that end, Firms need to re-think the manner in which they structure the market data function to:

- achieve a sustainable operating model relative to their size
- effectively manage end-user requirements
- adopt the most appropriate technology

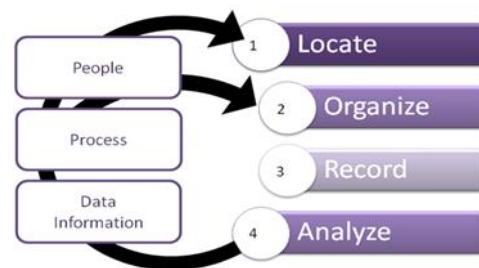
A more dynamic discussion is needed to explore outsourcing the administration function (managed services); spend and usage analysis (tracking and measurement solutions); structure and authority (governance); and emphasis on Users (or Demand Management).

The Cost of “Cost Savings”

The effort, time and cost required to maintain Market Data Services Inventory and strong relationship practices as a business support function is substantial; however, the impacts of mismanaging Market Data Inventory may be much worse – noncompliance, redundant/duplicate services, reputation, and contract breach, are among some of these risks. It’s proven that taking a centralized approach by assembling the unique skills will generate considerable benefits.

The human element (competency) is critical given the complexities, volume, and user interaction that market data contracts represent. The below diagram depicts an oversimplified view of the knowledge management activities in managing market data services (and contracts) demonstrating where most Firms miscalculate on the structure/skills required to deliver high quality results.

Figure 1 – Simplified view of Knowledge Management Activities (in Market Data Management)



The diagram illustrates the classic challenge that non-market data professionals (Procurement teams, individual business units, and Finance in preparing annual Budgets) face – they lack the wherewithal to execute the research, shown as a loop-back to either the LOCATE or ORGANIZE step, that is often required. During the course of services/contract analysis, illogical or incomprehensive results will arise, and non-market data literate groups have neither the cycles nor the expertise to resolve

the gaps. Pressured to find results or complete a task, the tendency of non-market data literate staff is to make assumptions or underestimate the missing information as immaterial. The leg-work is sacrificed for the sake of expediency, rendering poor information that affects TENS of millions of dollars. Only properly skilled Market Data Teams can best determine the level and degree of investigation required to fill unexplainable gaps that are bound to occur due to: timing, transaction volumes, errors and omissions (internal and external), and even currency fluctuations.

Mobilizing your Market Data Management Function for add-value activities

Data and analytics have transformed the business landscape. Market Data Management has an active place in that change to help strategic decision makers understand *what, where, how, and why* information moves within an organization using a cost *management* lens.

By developing skilled and properly equipped market data specialists, greater capacity to navigate the subtleties of third party technology and data sources becomes available.

Firms are therefore encouraged to :

- a) Assess the importance of
 - Centralized databases
 - Analytics resources
 - Ability to drive front-line change through business leaders
- b) Take action by
 - Enhancing the mandate of market data management
 - Right-sizing the quantity and skill-set of market data teams
 - Creating top-management support through high value analytics with active senior sponsorship

MDC Core Service Offering – Market Data Management

Market Data Company offers Market Data experience with proven solutions that help our clients address their most complex Market Data Management, Governance, and Risk Management issues. Our focus is heavily concentrated in the commercials and cost management aspects of those areas with programs designed to help Firms structure teams, augment resources, develop reporting/analytics, and drive value to the organization.

Consulting Services



Market Data Diagnostics

MDC establishes a baseline understanding of your current environment in providing advisory services that carry your organization from business case development to strategy. A path where “Quick Wins” are frequently identified to provide funding for adopting larger, value-added ***initiatives focused on Leadership, Resourcing, Operational Structure, Technology Adoption, and Best Practices***

Market Data Administration Programs



Data and Contract Administration

All MDC information and decisions are driven by sound, structured contract and services information. We provide resources to capture and manage all aspects of contractual relationships locally, or through our ***Managed Services offering***

Productivity and Industry Intelligence Tools



Demand Management

MDC uncovers critical internal consumption and cost information towards helping buy-side and sell-side firms manage user demand and data distribution ***through usage tracking tools, skills augmentation, and knowledge-base development***

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About MDC

MDC is a leader in Market Data compliance, operations, technology and advisory services. The insights and quality services we deliver build trust and confidence in the world of capital markets. We develop industry leadership that delivers deep domain expertise to all of our stakeholders. In so doing, we play a critical role in building a better innovative working world for our people, our clients and overall the industry.



Company