Drivers in Trading Transformation: Cost

Regulation and competition have been crucial to the advancement of trading technology since its inception; however, at the core of most technology decisions lies one key factor—cost. With the rise of electronic trading, moving toward a more agile trading solution seems like a natural progression, but firms often fear that their investment will not yield the returns necessary to stay afloat.

In a collaborative report, Nasdaq and Celent focused on revealing key drivers for trading transformation to discover how firms innovate and adapt in an industry that continuously evolves. Over 50 senior trading leaders across asset classes, geographies and firm types were surveyed to uncover the opportunities and threats that are defining change for the current trading landscape. With the cost of remaining competitive cited as the most significant technology concern, it is clear that cost concerns are top of mind for leaders in trading across the board.
A COSTLY LINE OF BUSINESS

Market structure changes drive competition, and the electronification of trading has accelerated this process over the past few decades. Low-latency, algorithmic, and high-frequency trading has become the standard. This has led to the emergence of alternative trading platforms and increased competition, forcing firms to invest in market data, high-speed connectivity, and infrastructure—all for a cost.

Despite the unpredictability of external factors such as market conditions, it is important to understand what actions senior leaders in trading and technology are taking to succeed in an industry that is constantly adapting and evolving. Cost-cutting has long been a tactic to improve fiscal appearance, but with 73% of respondents aiming to drive revenue over the next three years, it is important for firms to realize where they can focus on differentiation and revenue generation.

FROM CUTTING COSTS TO DRIVING REVENUE

The cost of investing internally is frequently overlooked by senior leaders attempting to improve their bottom line. Oftentimes, short-sighted attempts to cut costs can benefit a firm in the short-term, but these efforts only serve to hinder growth in the long run. As shown in Figure 1, 33% of respondents indicate that their key technology concern is the cost of remaining competitive, followed by 27% concerned with the complexity of existing trading technology stack.

Although cost will always underpin any decision to invest in technology, the greater concern should be remaining stagnant. Modern day firms have moved past pure cost cutting into an era of investment to grow in ways that minimize cost structures and maximize agility. There has been a significant shift in priorities between cost cutting and driving revenues. Figure 2 shows that in the next three years, there is an expected shift towards a focus on driving revenues in the front office. In many cases, strategic technology decisions yield cost cutting and are driving revenues for the next three years.

Considering 82% of firms are differentiating themselves with technology, and 55% are choosing to outsource, partner, or purchase their technology solution, it is clear that investment in technology is largely seen as an opportunity for heads of trading and technology to drive revenue in the future.

FROM CUTTING COSTS TO DRIVING REVENUE
Investment in technology has become the cost of admission across the financial sector. Today’s firms can prove to be obsolete by choosing to remain stagnant during this period of accelerated growth. With that in mind, it is essential to plan methodically and invest strategically. Competition drives markets, and the ability to differentiate is fundamental in attracting and maintaining clients.

Trading leaders are taking their investments in new technology seriously, with the majority of recent investments focused around optimizing infrastructure. A reported 37% of firms are partnering or outsourcing components of their front office. A total of 64% are currently looking or plan to look for strategic partnerships or an opportunity to outsource their front office, primarily driven by cost savings and an increased focus on core activities.

CONCLUSION

Nasdaq’s Execution Platform delivers unparalleled speed and efficiency while proving to be cost-effective for clients. As trading technology continues to improve, investment in new infrastructure is no longer a matter of if, but when. That is why firms, such as Stifel, have chosen to partner with Nasdaq to solidify and improve their position in the industry.

Although it is important to consider budgetary restraints, Nasdaq provides solutions for a wide range of price-points allowing firms to spend and customize the solution to benefit their specific needs. From partnerships with Tier 1 Banks to Regional Brokers, to Proprietary Trading firms, Nasdaq’s Execution Platform has proven to be an investment in the future.