



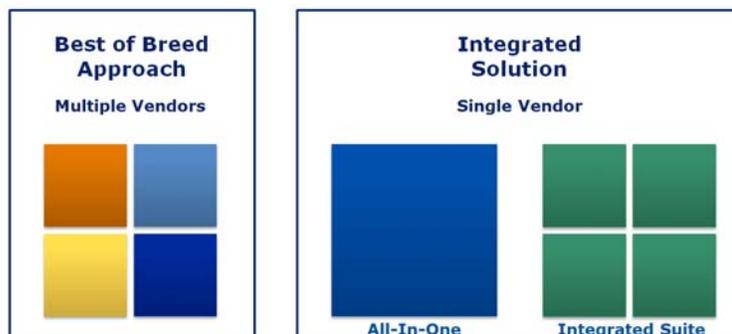
Software Strategies for the Investment Manager: Is there a right answer?

Investment managers have long struggled to manage the multitude of Best of Breed systems from different vendors that support their investment processes. In one recent engagement, CutterConsulting identified over 800 of these systems. Given the exorbitant costs of integrating, maintaining, and upgrading different systems, many firms are looking at different operating models to more efficiently manage their business. But the “right” approach for your firm depends on a number of factors. Integrated Solutions offer lower costs and a simpler operating platform. The Best of Breed strategy frequently provides richer functionality, the ability to more quickly deploy additional functionality (albeit in yet another new system) and gives the opportunity to better leverage technology advances.

The Options

There are two approaches—best of breed applications and an integrated solution.

- **Best of Breed Approach.** A strategy of using special purpose applications offered by different vendors that are the best in their class at meeting specific business requirements of a particular group of users. Examples include order management systems, performance measurement systems, and fee billing systems.
- **Integrated Solution.** A comprehensive solution from a single vendor with integrated modules or functional components. An Integrated Solution provides core functionality required by business functions, and is structured as either an All-in-One Solution or an Integrated Suite.
 - **All-in-One Solution.** A comprehensive solution from a single vendor in which all functional components depend on a core processing component and cannot be broken out as standalone applications. The functional components typically share a common user interface, data structures, and data storage. An All-in-One Solution meets all requirements of a business function across the front, middle, and back office of an investment management firm. An example would be a solution that supports portfolio management, trading, investment accounting, performance measurement, and client reporting in a single system with components that cannot be unbundled and sold as separate applications.
 - **Integrated Suite.** A comprehensive solution from a single vendor in which integrated modules are independent of a core processing module and can be implemented as stand-alone applications. An Integrated Suite meets business function requirements internal to the front and/or middle and/or back office. The modules of the suite often share a common user interface and/or common data structures and data storage. An example would be an application suite from a single vendor that supports portfolio management, trading, investment accounting, performance measurement, and client reporting in a bundled suite that can also be unbundled and sold as standalone applications.



Questions to Consider

To determine whether a Best of Breed or Integrated Solution is the right approach for your firm, consider the following questions:

- Are the business requirements for the new application so specialized that they require a Best of Breed (BoB) application, or can they be met by the functionality offered in an Integrated Solution?
- Is it imperative to meet this functional requirement immediately, or can we afford to wait?
- Do we have sufficient IT resources to completely integrate multiple applications?
- Are the near-term challenges to implementation prohibitive, or are they justifiable for long-term business improvements?
- Is the product marketed as an Integrated Solution truly integrated, or is the term used mainly for marketing hype?
- Is the Integrated Solution sufficiently competitive with BoB products?
- What is the long-term viability of the vendor(s) we are considering?
- Compared to a BoB solution, does the Integrated Solution save enough money to justify any sacrifice in functionality?
- Do the new functional requirements merit considering a deployment option (for example, outsourced, in-house, or SaaS) that differs from our other operational support systems?

If you have the luxury of addressing these questions as part of a comprehensive systems strategy discussion, you are one of the lucky ones. Most firms need to retain at least some legacy applications, and many have a sub-optimal system composed of a hodgepodge of applications, often resulting from mergers and acquisitions. Regardless, your firm should answer these questions as part of any discussion of new applications.

Vendor Strategies

In the past, vendors typically positioned themselves as either a BoB provider or an Integrated Solution provider. Today, most vendors are reluctant to be pigeon-holed as one or the other because as their products have evolved, the labels have become overly restrictive and misleading. In fact the Best of Breed camp and the Integrated Solutions camp are moving closer to each other.

The vendors once classified as BoB providers don't want to discourage prospects concerned about cost, risk, and the number of vendor relationships they need to manage. These vendors are devoting significant resources to increasing efficiency for clients by broadening their offering with functionality that complements their products' existing functionality.

The vendors once classified as Integrated Solutions providers don't want to discourage prospects concerned about shallow functionality. These vendors are deepening functionality in their products, deepening the pool of asset types supported, building more robust interfaces to other industry services, and improving the user experience. Although they acknowledge that their product might not meet every demand of a small number of very sophisticated investment managers, they believe their product is functionally competitive, highly efficient, highly cost effective, and a compelling value proposition for most investment management firms.

Over the past few years, the perception of hosted solutions has evolved—from "unacceptable" to "acceptable," and finally (in some cases) to "required." Vendors are responding with flexible delivery models that remove many integration challenges presented by traditional Best of Breed products. Hosted solutions can fulfill customer requirements for broad and deep functionality as well as improved risk management, cost containment, and operational simplicity.

Conclusions

The decision between comprehensive single vendor solutions and best of breed combinations could remain difficult for some time. But differences between the two are becoming less distinct, as vendors offer better solutions for functionality and integration, including hosted solutions. This is a very healthy situation for our member firms because they will be able to get more from their vendor relationships, no matter which option they pursue.

In June 2011, CutterResearch presented a webcast titled "Best of Breed vs. All-in-One: Living with the Decision" in which we discussed the detailed results of this research. The full report is available to our Member firms at www.cutterassociates.com

