

Product-to-Professional Services

Growth by Partnerships for ISVs in the financial software products markets

A whitepaper on the advantages of partnerships with ITES vendors to accelerate growth for financial ISVs.

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Executive Summary

Due to the increasing complexity of the financial instruments globalization of the customer base and increasing complexity of the regulatory environment, financial services companies are becoming increasingly dependent on cutting-edge highly functional software products to maintain their lead in the markets. There are numerous companies in the software space that are building products, platforms and solutions for the specific requirements of these highly demanding customers.

These financial software product companies are typically formed by a combination of experts in financial domain and Software engineering practitioners. The majority of the effort goes into building the best possible functionality and the latest technology paradigm in the products. But each of the financial services clients needs its own functionality, connectivity with its internal proprietary software environment and has its own regulatory and management reporting needs. That means that these software companies have to provide considerable professional services component in their offerings to their clients, which is not attractive to the software companies from the standpoint of license-services revenue mix as well as the requisite resource levels.

This white paper discusses the ways for financial services ISV's to create a strategic partnership with a specialist service provider to provide a more complete product engineering-to-professional services-to-support solution to their customers that not only helps the company in its growth, but increases value by focusing the internal experts on innovation.

Technologies drive the Financial Industry

RISK Magazine (www.risk.net) editor Nick Sawyer writes, “The sheer size of the credit derivatives market, which hit a notional value of \$17.3 trillion in March, according to the International Swaps and Derivatives Association, and the range of new products available are creating the opportunity to set up competition [for operative platform product companies].”

A major challenge facing this industry is the increasing stringent regulatory environment as it relates to financial risk, transparency and corporate governance. Compliance puts great pressure on investment managers to more tightly integrate trading, risk, operations and accounting processing for all financial assets and liabilities as well as associated derivatives.

Just like the credit derivatives market, other areas such as insurance, portfolio management, leasing, and nearly every sector in the banking and financial industry today require extremely sensitive and powerful platforms, tools, and actionable information to transact, function, and remain competitive.

A Tower Group report outlined that “...as business volumes and revenues rebound, banking, securities, and insurance institutions will get smarter about picking the right business opportunities to leverage \$362 billion in IT investments for competitive advantage in 2005. Effective business innovations that build on advanced technology and business process capabilities in a more cohesive enterprise framework will position IT as an enabler of organic growth. New technology architectures and functional solutions that align with a transformation road map are essential to sustain revenue growth over the longer term.”

According to Rodney Nelsestuen of the Needham, MA-based Tower Group, 2007 is going to see a re-listing of priorities for the financial companies. Nelsestuen writes, “The Top 10 priorities in financial services for 2007 can be aggregated into one vision requiring three strategic shifts: reinventing financial services at the core, repurposing financial services for global diversity, and restoring confidence in an uncertain world. Reinvention means redesigning business as if starting with a clean slate instead of just making changes. Repurposing provides a fresh image and will improve reception of financial services throughout an expanding global marketplace. Restoring confidence will expand and spread economic well-being. These visionary changes will result in strong marketplace differentiation and better stakeholder value through improved profits.

In a parallel trend, in the last six years alone, over a thousand software companies have mushroomed—predictably in the proximity of Wall Street—that build platforms and products to help the industry remain within

regulatory compliance, and maintain the AAA credit ratings. If we were to consider the direction in which the financial services companies are moving, and the capabilities of product companies in meeting these changing dynamics of the marketplace, there are numerous gaps that need to fill in—and that too, very, very quickly, efficiently, and successfully.

Moving on from vl.2a

The independent software vendors (ISVs) bring rich domain expertise within the product market—whether it be transactional, functional, business intelligence, regulatory or any other when they launch the first generation of their product. However, it is just the beginning. While a good product is a fundamental requirement, it is just a component of a good solution to satisfy a client. Besides, only superior product life cycle support will keep the clients from taking their business elsewhere.

- Most products HAVE to evolve: the client and markets keep changing their business models and requirements, requiring constant evolution in the product functionality. At the same time, technology standards in terms of platforms, paradigms, user interfaces, programming languages and connectivity requirements continuously change. This is reflected back in the technologies used to create the product.

How do small and medium ISVs manage this process?

- Products require extensive customization before they are adopted by the clients depending on the client's way of conducting the business, ISVs are required to not only to enable customization in their products, but actually go through a full development cycle to implement extensive customization of their products at the client end. The customizations involve functionality changes, user interface and reporting variations. This client level development cycle requires significant resource commitments.

How do ISVs cater to this requirement even while building more client bases?

- All IT environments including those of financial services companies have diverse technology and software environments, including software applications from multiple companies, built using diverse technologies. This results in a need to interoperate and connect with platforms from Solaris to Windows to Mainframe, middleware from IBM MQ Series to TIBCO to JMS, multiple application servers, multiple databases, web servers, security platforms and other software products. The changes in servers, platforms, languages, tools and middleware are constant. The ISVs are expected to make their products work seamlessly in such environments.

How are these companies managing these issues?

As we notice, the ISVs are under constant pressure to meet varying requirements that embrace the spectrum from product development to product installation to customization, support and migration.

Product lifecycle solutions

The typical ISV very soon comes up with issues from the pressures of the client requirements, including services, migration, and business functionality. We have observed the most frequent of them to be:

- **Reluctance in growing a professional services arm:** ISVs are most comfortable with product development, and shy away from building a professional services component, and find many clients insist on it. A sizeable professional services organization puts pressure on the financial and business models of the ISV.
- **Changing technology paradigms:** This is most prevalent today when financial services companies are embracing service-oriented architecture, whereas the ISV's products are stuck in the older technology paradigm. This paradigm shift creates compulsion for the ISV to recast the entire product in the new environment, while at the same time, the clients and prospects are clamoring for more functionality. The new prospects may not include the ISV's products in their purchase cycle until there is an acceptable roadmap and a timeline to bring new versions in the newer technologies.
- **Conflicting client requirements:** Some clients insist on keeping the old products in the old technology paradigm, while the some clients, especially the newer prospects want to migrate to the newer technology platform. This requires the ISVs to simultaneously maintain, support and enhance two software branches. This in turn requires them to develop, train, and maintain two streams of talent to even consider offering professional services.

Core vs. Context: The Xoriant Advantage

Well planned professional services can add significant value to an ISV product offering in the market. Partnering with a professional services firm like Xoriant—a company that brings deep understanding of product life cycle operations ranging from engineering to support and client level solutions, especially for financial services clients—will add leverage potential for an ISV not just at the client-side but within its operations too.

Xoriant's Xtended Engineering Center (XEC) is a unique business partnership that is designed to manage the ecosystem around the ISVs' products in the real-time enterprise. With a unique mix of domain knowledge, technology capabilities, and rich talent, the XEC is a comprehensive partner that can:

Outsource the technology implementation and testing components: while the ISV focuses on the next generation of the product – functionality, specifications and architecture, while the XEC will implement the

design, create the right adaptors for integration with industry-standard technologies and platforms, and create different versions for different client segments.

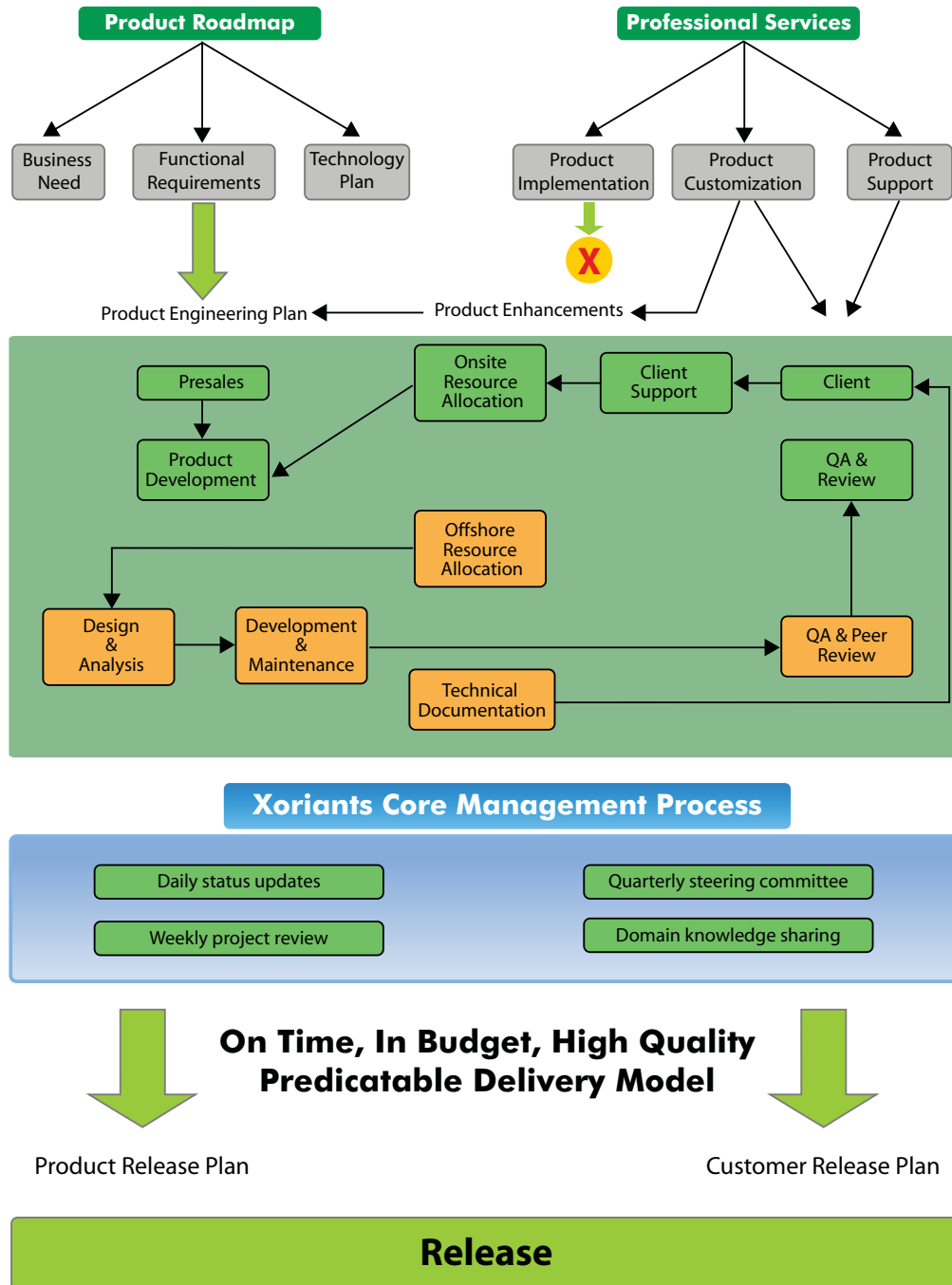
Study the components of the older product versions, many of them in the older technologies and devise a plan to maintain, support and enhance those products in those clients who still want to use the older versions. Implement a plan to continuously recruit and train employees on these technologies and products to ensure continuous client coverage.

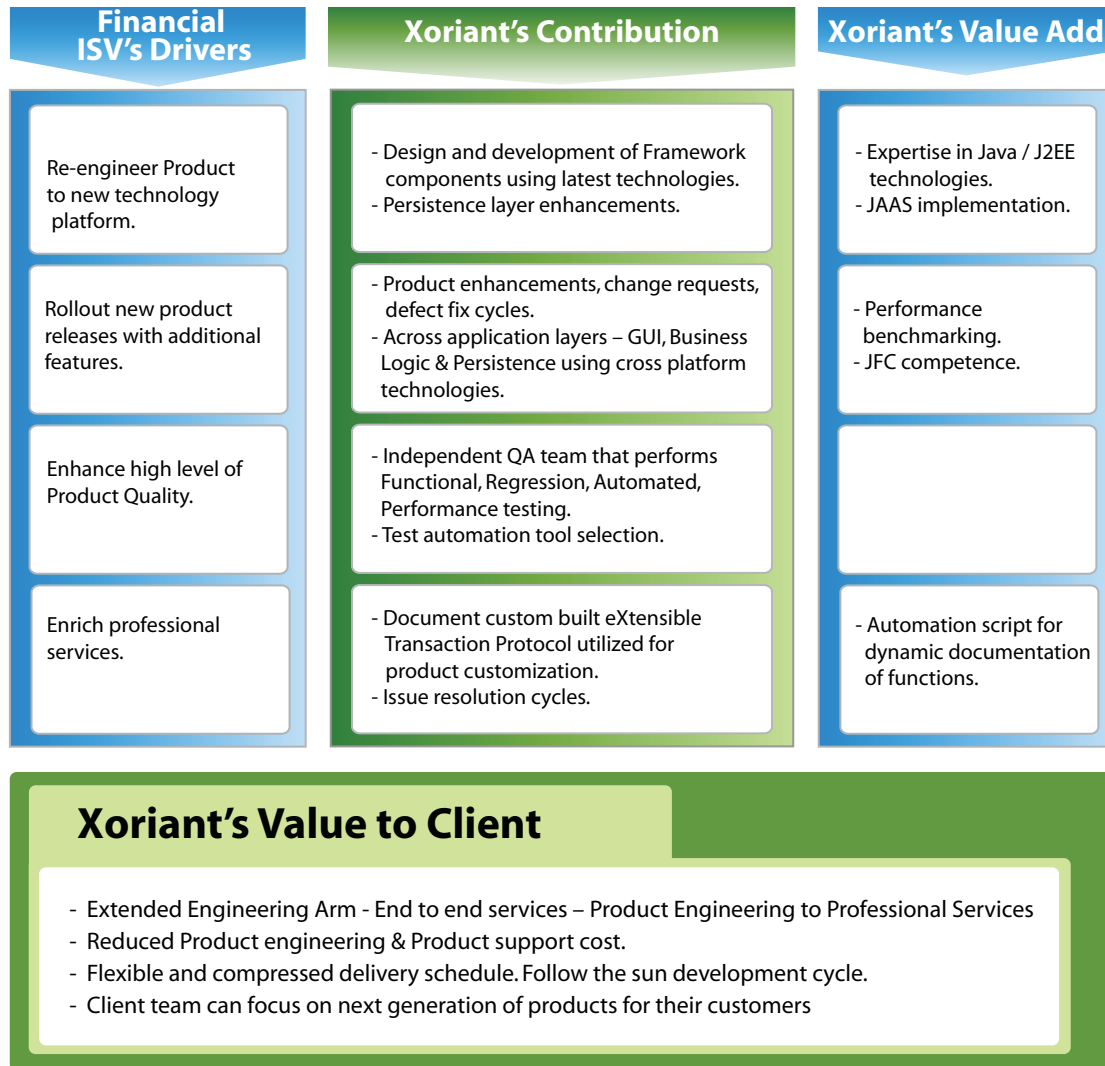
Migrate, sustain, enhance, integrate and customize different product versions in response to the technology paradigm, functionality and integration environment changes at the client side, so that different versions work seamlessly with diverse client environments.

In summary, Xoriant XEC maximizes the ISV's value by allowing the ISV employees concentrate on the "core" product activities, while outsourcing the "context" activities, which are necessary to provide a complete solution to the clients.

A case in point is Xoriant's engagement with a leading Jersey City, NJ-based company that develops Structured Financial products for the derivatives markets. The company's existing product line is 8-years old and has been implemented using UNIX, Oracle, C/C++, X-Windows/Motif platform, and the management wants to introduce a new product line for emerging financial instruments. However, new prospects are clamoring for newer computing platform and newer thin client paradigms. At some point, even the older product line may have to be migrated to the newer platform. Working closely with the product engineering group at the client site, the Xoriant XEC has delivered the following:

- Built a team to maintain the core products, with the right training programs (Domain & Technical skills upgrade) in place to ramp up existing and new recruits on the team.
- Jointly designed a development framework using a state-of-the-art application server, J2EE and Oracle at the backend and Java/Swing on the front-end. Jointly designed an interfacing framework to integrate with core business functionalities that is already developed in C/C++. Developed functional modules of the new product using these frameworks.
- Contributed as an extended engineering arm of the company in development of new functionalities to meet current business demands of their customers.
- Studied and documented the customization framework for the old product, so that maintainability of the old customer implementations would be improved and the future customizations could be more standardized and hence, quicker.





- Provided L2 product support for existing customers responsible for analysis of the problem requests, simulating the problems & providing fixes.

- Built a team of QA to implement “Independent testing” model of all client products. Common test repository & Test Automation are the core elements of this entire model.

The future work would involve designing a migration strategy for migrating the old product (C/C++) to the new platform (Java/J2EE) and executing the migration. XEC team would also be available for participating in client customizations, which could be delivered more quickly and cost-effectively.

“As we explored partnering with a professional services firm, Xoriant brought the superior capabilities, versatility and experience of dealing with the small-to-medium ISV world,” says the executive vice president at the company.

Since the ISVs typically do not have mature processes or documentation, XEC is a powerful partner to enable product companies maintain a consistent handle on the product engineering process, version controls, and seamless functioning in the client eco-system.

Financial technology companies are welcome to discuss how they can leverage the domain expertise of Xoriant’s XEC in the professional services for their client environments.