Connect to Revenue

Break through the inertia of the legacy model

Date: 23 June 2015

LUCERA
The Future of Financial Infrastructure

CONTENTS

EXECUTIVE SUMMARY

This document examines the current challenges faced by trading businesses operating in a globally connected, electronic trading infrastructure. We examine how the legacy connectivity model fails to deliver on time to market and total cost of ownership, and discuss new trends in technology services that are empowering businesses. Finally, we present an infrastructure solution suited to a modern electronic marketplace, which:

- Puts control of connectivity back in the hands of the business
- Delivers significant cost savings on network infrastructure
- Exposes additional revenue
- Reduces connectivity costs enabling bottom line growth

INTRODUCTION

As financial service firms look to increase their revenues, they continue to face increased pressure from a number of external factors, including pricing pressure from clients, ever increasing regulation, and accessing heavily fragmented liquidity

With the majority of asset classes trading wholly or partially in electronic marketplaces, global connectivity is the lifeblood of operating successfully in a trading community. As markets move towards increased electronification, the ability to connect quickly and cost effectively is core to success.

However, the current model of connecting to counter-parties is missing the attributes that are needed by the business. The lack of flexibility, agility and transparency shackles the business leading to higher costs, lost revenues, and damaged customer relationships.

INERTIA OF THE LEGACY MODEL

Is the legacy model of delivering connectivity services in harmony with the way electronic trading businesses need to access them? Or is it just increasing time to market and leading to lost revenue…

The legacy model is a recognized shortcoming, yet has remained the broad standard in how connectivity is delivered. In analyzing the model used to provide client access, it is clear that this model was not borne by the businesses that use it. Instead, it reflects a telecommunications vendor model that is at odds with business requirements.

A successful trading operation demands the ability to both quickly and cost effectively expand existing business, and execute on new opportunities . This agility, powering innovation and driving new revenues, requires minimal friction between opportunity recognition and network implementation. Yet in a recent survey of investment banks, 70% responded that connecting to a client took longer than a week, with 26% indicating that it takes longer than 4 weeks.[1]

[1] "The Value Of Market Connectivity" by WatersTechnology on behalf of Colt https://forum.equinix.com/insights/white-paper-the-value-of-market-connectivity/financial

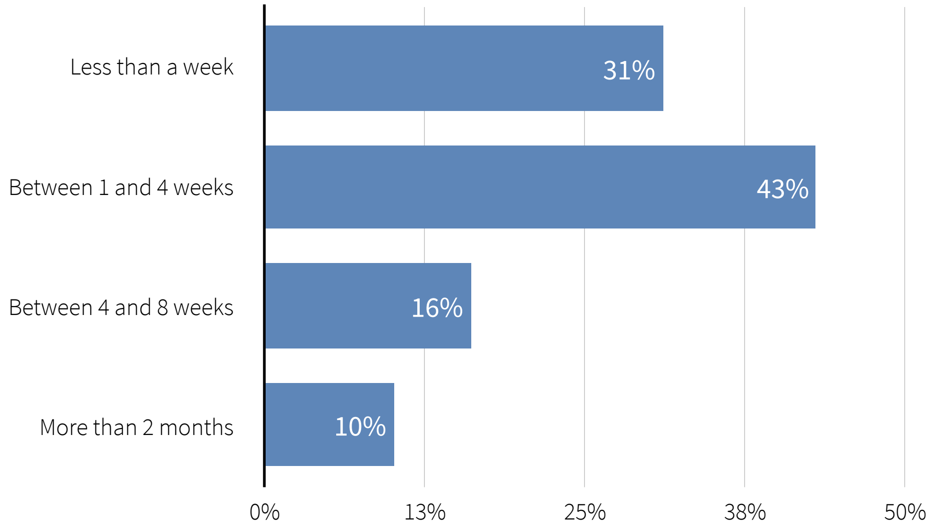

Figure 1: Time taken to connect to a new client

These delays have a material impact on revenue. Each day, from the point in time when businesses decide to onboard a client, to having that client live, is money that is left on the table as time to revenue increases. A firm that has experienced these delays in on-boarding clients estimated that the **average** revenue per client was approximately $1,000 per day. When multiplied out by their average turn up time of 45 days, this delay cost $45,000 in revenue per customer.[2] This lost revenue can mount up substantially, before accounting for the negative impact to clients' revenues, and associated damage to the relationship.

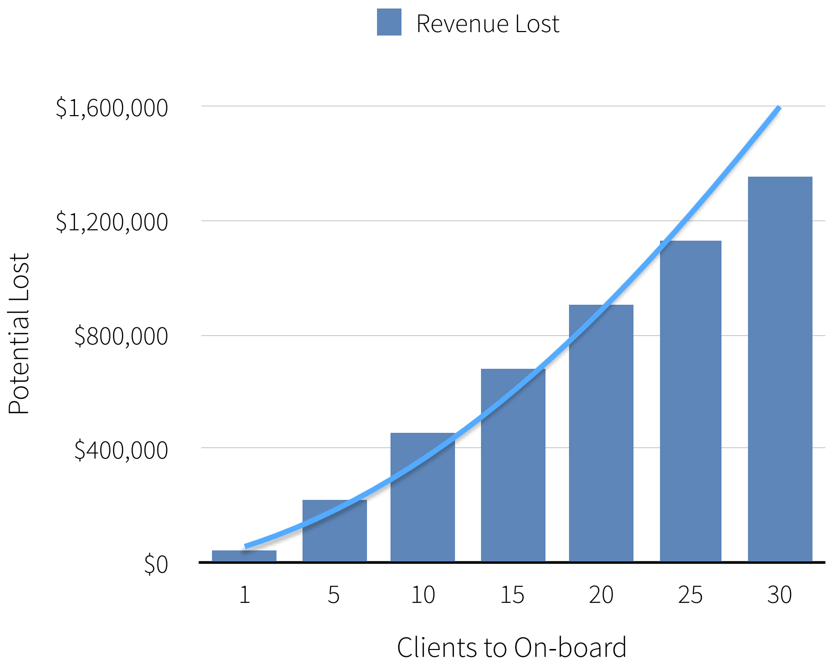

Figure 2: View of potential lost revenue vs number of clients to onboard

In marketplaces where new providers and clients enter and exit frequently, and where providers can choose whether or not to trade with counter-parties, it is critical to have a connectivity service that can

[2] Estimated figures from client consultation

be quickly spun up and torn down as rapidly as market players change. This "just in time delivery" ensures that businesses' costs can adjust and scale with changing client demands. In the legacy model, effectively managing client portability is at odds with connectivity contracts extending 12 to 36 months. The net result is the business paying for connectivity, to service clients that no longer generate revenue.

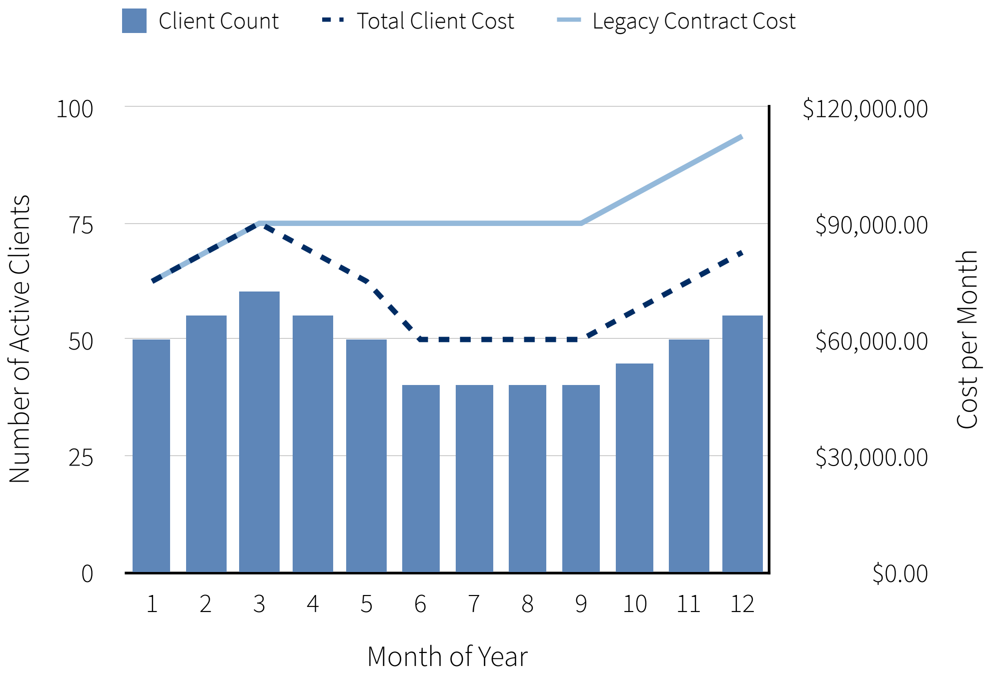

Figure 3: Visual showing effect of adding and removing clients over time on client cost vs legacy contract costs.[3]

With the legacy model revenue is lost.

LACK OF TRANSPARENCY

Is a lack of transparency on underlying connectivity services increasing total cost of ownership and hurting the bottom line? Which risks are firms exposed to?

"You can't manage, what you can't measure" is a management principle that is vital to continually optimize business operations, yet is only possible with the transparency to accurately identify costs.

In the legacy model, trading groups struggle to effectively manage client access, lacking both visibility and granularity into underlying infrastructure services supporting their business, particularly the utilization of client connections. On the connections that are active, approximately 95% of the available, provisioned capacity remains unused.[4] Consequently, the business is paying for services above and beyond what is needed, increasing the total cost of ownership, and wasting valuable spend. This lack of transparency undermines the ability to accurately manage client inventory, exposing firms to regulatory

[3] This is using a figure of $1,500 per customer connect, per month. Clients in months 10 - 12 are new clients (i.e. not the clients that were removed in months 4-6)

[4] As indicated it is difficult to retrieve figures on underlying connectivity utilisation - this figure is based on informal interviews with clients who have been able to derive some insight

risk. Financial authorities' oversight includes fine issuance for brokers overcharging clients as a result of inaccurate accounting of services that they use, which can range into the millions of dollars.[5]

Without transparency, the total cost of ownership is always too high.

INVERSION OF CONTROL

Decentralizing technology, and empowering the business directly with the right tools, is the way to improve efficiency and delivery

The model of delivering IT services to business groups has traditionally been delivered from a centralized IT department acting as a horizontal, shared service provider to business verticals. Operating in these silos is empirically inefficient, consisting of business units' complaints that IT is unable to understand the business unit and its requirements, and conversely from IT, that businesses do not understand the technology. Almost 25% of IT departments agree that project goals are hindered by internal politics, decision making and a lack of IT strategy alignment.[6]

With technology being key to delivery for the business, this model has shifted to a decentralized structure where technology lives within the business, including personnel, purchasing decisions and budget. It is estimated that 79% of business lines within organizations now have their own IT budget,[7] and trends indicate that business technology spend is increasing at over 3 times that of IT spend.[8]

These changes point towards the business as a self contained unit including all of its dependencies, not the silos for individual functions. This restructuring puts the control back in the business' hands, where direction and focus are clear, technology strategy is aligned, and the agility required to deliver is a reality. To be agile, the technology driving business units' dependent services needs to be at their finger tips. The ability to spin-up / tear-down commoditized layers of the stack such as connectivity, quickly and cost effectively, enables the businesses to focus on growing their revenues, increasing their margins, and improving bottom lines.

[5] "FINRA fines for overcharging" - the fine here was levied for "supervisory failures" with regards to overcharging. The root cause is not exposed in this news release but, sympathetically, could be improved by better visibility, which is the point around transparency on client access - http://www.finra.org/newsroom/2012/finra-fines-merrill-lynch-28-million-overcharging-customers-32-million-remediation

[6] "Operations in Financial Services" IT department survey - http://www.fujitsu.com/uk/Images/operations-in-financial-services_tcm23-1118883.pdf

[7] "Line-of-business budgets to outstrip IT department spends in five years" - http://www.arnnet.com.au/article/569384/line-business-it-budgets-outstrip-department-spend-five-years/

[8] "New Buyer Technology Spending Forecast" - trend highlights - http://www.idc.com/getdoc.jsp?containerId=prUS24789114&pageType=PRINTFRIENDLY

A BETTER WAY

Lucera Connect™ - a solution built by traders for traders

Lucera has broken the inertia of the legacy model, and established itself as true partners to our customers. Lucera Connect™ changes the paradigm for businesses connecting to their clients. The underlying guiding principles of the Lucera Connect™ solution were born from the founders' same frustrations around time to market, simplicity, and costs challenging our customers today:

Customer Challenge	Lucera Connect™ Solution
Slow time to revenue when connecting to new clients, with delays into the weeks - revenue lost.	Provisioning on Lucera Connect™ can be completed in minutes for customers who are on-net, with 35% of requests turned around same day, 76% in under 48 hours, and 94% in under 72 hours - revenue gained.
Lack of business agility in spinning up new initiatives due to cost barrier - missing trading opportunities	Services are charged month to month with no up front cost enabling clients to spin up and down, in line with their business successes.
Limited visibility of service utilisation underpinning the trading business can lead to higher TCO relative to revenues associated with the service	Client access is provisioned through Lucera Connect™ web based portal which shows utilisation of application data flows to each counter-party, enabling simple rationalization of connectivity.
Critical business dependancies are outside in the hands of the business.	Lucera Connect™ has a web based inventory management system which puts full control and visibility of a customers networks at the finger tips of the business, showing application centric data flows

The Lucera Connect™ solution delivers unparalleled cost savings and efficiencies to clients, at scale, in short periods of time. In one example of a client using Lucera Connect™, in **90 days** this client achieved:

- 22 x **faster time to market** for client on-boarding
- 79% **reduction in cost** for networking ($750,000 savings in a single quarter)
- $1.6 million **additional revenue** from faster client on boarding
- 8% **increase to bottom line** profits

This positive impact for our clients from using Lucera Connect™, reflects a product purpose built for trading needs.

CONCLUSION

Connecting quickly and cost effectively to clients in an electronic market place is critical. The revenue losses incurred through continued use of the legacy model highlight that, legacy is increasingly unsuited to today's trading business, and that a better way is needed. Lucera Connect™ provides clients with shorter times to revenue, through fast on-boarding, and puts control directly in the hands of the business. Combining a month to month, pay as you go model with an unparalleled level of visibility into client connectivity, Lucera Connect™ delivers a new solution paradigm.

ABOUT LUCERA

Lucera was founded in 2013 to fill a glaring gap in the market. Challenged by exploding market data volumes, the ongoing latency arms race, rising costs in networking and relentless new regulatory demands, we recognized that firms were hamstrung in their search for high performance infrastructure. We needed a better platform to power critical trading environments and client on-boarding, so we created Lucera. Designed and built by traders who ran High Frequency desks, Lucera delivers exceptional customer experience, performance, security and scalability in a single solution.

Lucera is a privately held, New York based firm launched with initial backing from Cantor Fitzgerald, a leading global financial services firm and active Lucera customer.

Our Value

The Lucera solution is on-demand, secure and scalable infrastructure supported by a global software defined network traversing 17,000 miles of the fastest transcontinental fiber and collocated in data-centers in New York, London and Chicago. We give our customers unprecedented control and flexibility to reduce time-to-market, lower total cost of ownership, reduce operational risk and ensure redundancy. Our unique combination of people, technology and customer experiences allow us to empower businesses to leverage infrastructure and networks with the freedom to connect to the main trading centers in the world in minutes.

We offer a month-to-month service with no up-front cost or commitment, giving our clients the scale and freedom they require.

Our clients range from tier 1 banks through to boutique financial institutions and high frequency trading shops. All Lucera clients receive dedicated support, monitoring and analytics to support their business and meet the demand of their own customers.