Gartner

Research

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royalblue Seeks Elusive Product Synergy in Buying LatentZero

David Schehr

A vendor of mainly sell-side trading systems, royalblue aims for synergy with LatentZero's buy-side order management system. Gartner doubts buy-side firms will find value in any such synergy.

NEWS ANALYSIS

Event

On 16 April 2007, royalblue group, a provider of predominantly sell-side trading platforms, announced it intends to acquire LatentZero, a privately owned supplier of order management systems (OMSs) to investment managers, in a transaction valued at £63 million. LatentZero will continue to operate as a separate entity and its management will remain in place.

Analysis

This deal represents the third acquisition of a buy-side OMS vendor by another financial services technology provider in less than two years. (ITG acquired Macgregor in July 2005 for $230 million in cash and Bank of New York, along with a private equity firm and Eze Castle Software, in June 2006 formed ConvergEx Group, a global agency brokerage.)

In each case, the OMS system became (or will become, in the LatentZero deal) part of a larger firm that is in related, but not competitive businesses. royalblue, which announced in February 2007 that it would rename itself Fidessa (after its flagship product) said then that it was seeking a large acquisition to expand its business with the buy side.

Both companies claim the combined company will offer clients and prospects enhanced synergy — "the potential for true integration of multi-asset-class buy- and sell-side trading flows," according to LatentZero cofounder Dan Watkins. Gartner has heard similar statements before — for example, about the claimed benefits of the ITG/Macgregor acquisition. To date, however, we have not seen such synergy materialize. Moreover, we question whether buy-side and sell-side synergy will offer a competitive advantage for royalblue, LatentZero and, most importantly, for customers and prospects. We find no significant reason for buy-side firms to look favorably at a sell-side organization gaining control over their OMS vendor because any synergies would likely benefit the provider more than clients.

In our recent survey of North American traditional asset managers, LatentZero had only a 4% market share — all in the middle tier ($5 billion to $25 billion in assets under management). Other findings from that survey showed that OMS replacements among traditional asset managers were slow and infrequent. We believe future growth will come from small firms and hedge funds gaining OMS capabilities delivered via an application service provider (ASP) or software-as-a-service model, rather than installed software. As of mid-2006, LatentZero did not offer its product in an ASP model. Therefore, it is likely that this acquisition stemmed from a lack of sufficient future growth opportunities at LatentZero, given low or slow sales increases for its traditional product offering.

RECOMMENDATIONS

- **LatentZero customers:** Look skeptically at any upgrades or pushes for expanded use of non-OMS royalblue services to ensure that any added features benefit you, and not just royalblue.

- **Companies considering OMS replacement:** Await evidence of the claimed product synergy between the two companies' offerings. Should such synergy not occur within 9 months to 12 months, look first to other vendors.

RECOMMENDED READING

- "Consolidation Will Be Slow in the Order Management Systems Market" — Most firms that use comprehensive OMSs have had them in place for several years and are in no hurry to switch to other providers. **By David Schehr**
- "ITG Buys Macgregor to Gain New Revenue via Product Synergy" — Management aims to create revenue synergy via cross-selling opportunities, but Gartner believes that such a result runs counter to long-term industry trends. **By David Schehr**

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