

## Path less travelled

What is it that propels a small player into the league of biggies? It could be an innovative business model in the exchanges.

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What would you say of a company that specialises in setting up stock exchanges? If you said, "Wow, is there a unique business there?" turn to Financial Technologies (FTL). Around 80 per cent of commodity trade in India happens through MCX, their flagship offering.

### Business offerings

The company, established in 1995, has made waves by forming exchanges to trade in hitherto untraded products like power, perishable products and currencies. Besides, the company is a major player in the transaction automation market and offers trading platforms used by brokers to connect and execute their trades with the stock exchanges. With around 750 client brokers using the company's licensed platforms, the company dominates this space with an 80 per cent market share.

### Pioneered automated trading

Traditionally exchanges worked as an Old Boys' Club without much inclination to adapt to changing times. Post 1991 a new breed of market participants emerged who demanded a greater variety of instruments that could be traded at a faster pace.

FTL, sensing this wave, introduced its flagship trading platform ODIN, to be used by NSE participants. ODIN was a complete front-office solution with built-in features like order routing, risk management and display engine with real-time connectivity.

This helped execute large scale orders at a low cost and was an instant hit with the brokers. The number of ODIN platforms has swelled from 10,000 in 2002 to upwards of 300,000 in 2008. The company now has plans to roll-out mobile, handheld and satellite-enabled connectivity which will make trading truly real-time.

### Off the beaten track

FTL has chosen the path least travelled through its decision to focus on non-equity products. Today, FTL has successfully established exchanges across product lines – MCX SX for trading currency futures; IEX, India's first power exchange to mention two.

Its second innovation is its strategy of pursuing inorganic growth globally namely growth through mergers. While the JV partners bring their knowledge of local market conditions to the table, FTL would provide extensive connectivity through its technology platforms.

### Porter's Five Forces

How does the company stack up if you apply Porter's famous 5-force model?

Bargaining power of suppliers: Low: FTL serves the financial community where technological efficiency and networking ability are the key value adds. But the company has an in-house team that develops technical platforms while an experienced management team takes care of the networking part. Thus, the dependence on supplier is extremely low.

Bargaining power of customers: Medium: Once an exchange grows in size and reputation, it gains an overwhelming pricing power over its customers. But the exponential growth of financial markets in recent years has triggered the need for trading mediums that are faster and cheaper. Alternative trading mediums like "Dark-pools" are slowly eating into the market share of established exchanges. To retain its customer base, exchanges have relaxed their pricing and operational rigidity. Threat of substitutes: Medium: Exchanges provide the traders with enhanced liquidity, instant price discovery and credit guarantee. Thus, any substitutes to this business are highly unlikely in the near term. While dark-pools is making a splash in Europe and the US, they haven't been able to make inroads into India.

Threat of competition: High: The competition among exchanges to capture customer base is intense. The intense battle between NSE and MCX in the currency future marketing is a case in point. Recently, NSE has also put Financial Technologies trading platform on the black list, which resulted in a long-drawn legal battle between the two exchanges.

Barriers to entry: Medium: Starting an exchange needs a detailed understanding of the business and ability to design scalable and reliable technological platforms. Hence the entry barriers are strong. However, once an exchange gains expertise in a particular product line, diversifying into another product line becomes relatively easier. Thus, one can expect existing players to enter new product lines.

Given its head-start, Financial Technologies, barring dramatic developments, is likely to retain its primordial place in the market.