

Web-based energy-trading solutions offer certain advantages over server-based systems, says *Thurstan Bannister*. In a later issue, we will publish an article setting out the benefits of server-based software

The advantage of ASPs



★ Mindful of the boom-and-bust cycle that characterised the initial use of application service providers (ASPs), IT managers in energy trading and risk management have been slow to adopt hosted – or web-based – software solutions. Most firms rely on home-grown or purchased applications sitting in-house. But recently, attitudes have shifted towards hosted solutions. Other sectors, particularly consumer finance, have started to re-adopt ASPs, and this change of heart has filtered through to energy-trading companies.

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Thurstan Bannister, Sakonnet Technologies

This renaissance in hosted software is due to basic business sense: the advantages it offers outweigh the disadvantages and can no longer be dismissed by managers determined to achieve high returns on new IT investments.

With the hosted model, new technology can be deployed quickly and adapt to the prevailing industry conditions without the burden of capital costs and the need to retain expensive technical staff. Corporate resources can therefore be concentrated on key competencies, such as trading, rather than peripheral activities, such as writing code and managing data storage. In this way, large companies can avoid ballooning IT departments and smaller specialist players, such as start-up hedge funds, minimise their initial costs.

As a result, many in the energy-trading community are recognising that a hosted software solution may be right for them. They want to break with the commercial past on such issues as pricing, support and product development. They want more of a business partnership with their vendors. They want to share ideas about

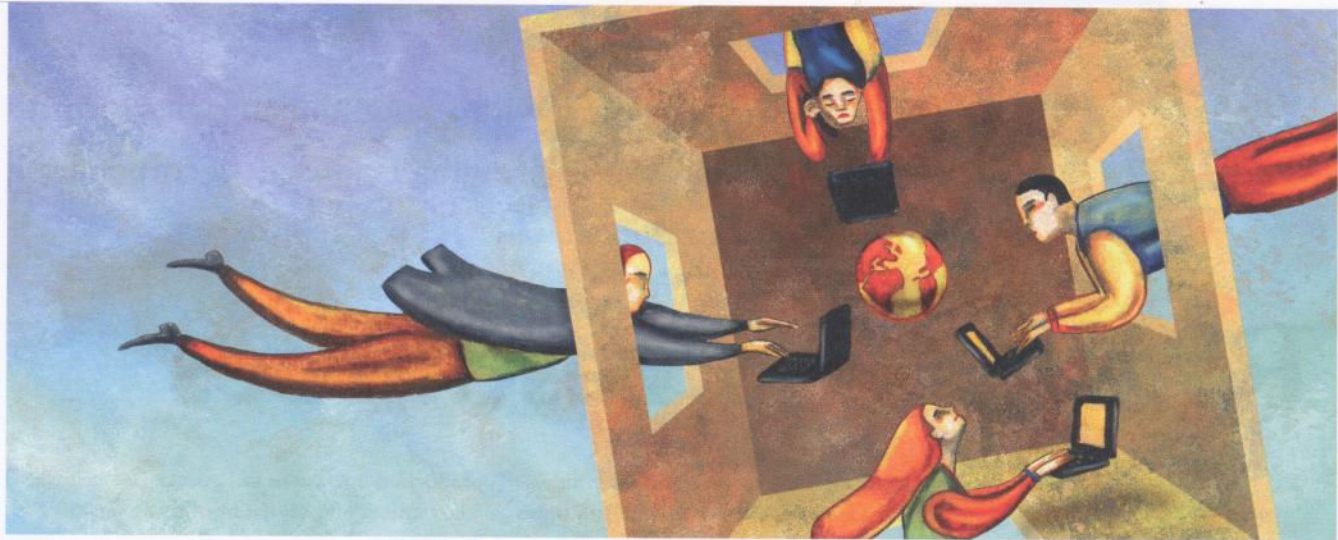
the provision and management of IT in an open way, secure in the belief that their provider is working with them for the long term. This is what providers of hosted solutions can give.

However, residual doubts about ASPs remain. The closer an outsourced service gets to an organisation’s essential operations, the riskier it is perceived to be. There is a big difference between outsourcing, say, a website and systems for trade capture and risk management – which is why these have traditionally sat in-house. For many, the idea of storing valuable and competitive data on servers outside the company and transmitting them on the internet sends chills down the spine.

But times change, and it is now considered better practice for business continuity and disaster recovery to store data outside the organisation; or at least to ‘mirror’ it in a separate storage facility. Having data stored in two or more centres away from the trading floor can actually provide a far greater degree of resilience than storing it in-house. And the risk of data being transmitted on the internet is addressed by secure socket layer (SSL) encryption before sending.

Hosted-solution providers can also create optimum security conditions for their clients by partnering with the storage solution providers and leveraging their expertise. Data centres from, for example, IBM and AT&T, are managed with a huge amount of redundancy in power and internet bandwidth, to create the most robust networks and ensure continuous application availability.

Another concern about the use of remotely hosted solutions has been that it renders the trading organisation dependent on the credit strength and longevity of their supplier. But this applies equally to traditional vendors. Energy-trading software is undeniably complex – and



support, maintenance and upgrades are essential to keep it operating at optimum level. So a credit issue with a traditional vendor would diminish the usefulness of an in-house solution. Note also that hosted-solution providers can put contingency plans in place, which, for example, ensure that if a credit event affecting them occurred, the third-party co-location providers would continue to make the application available to the corporate end-clients.

Incentives

A further point of comparison is on vendor incentives. A traditional licensing price structure does not offer the incentive for vendors to provide service excellence over time. With the licence fee paid upfront, the financial motive for meeting client high-quality support needs and system improvements is limited. On the other hand, hosted solutions rely almost universally on a leasing model, and their providers need to meet service obligations to continue earning their fees. The inevitable result is a better relationship between provider and client.

In addition, the traditional model limits further extension of the software because it is often prohibitively expensive to deliver application upgrades of on-site customised versions. By contrast, many hosted software providers have a single source code base across multiple clients, vastly raising the efficiency of developing and testing upgrades. An upgrade, once completed, is downloaded to remote servers, with no administration or expense for the corporate users.

The ability to customise has been something of a thorny issue for hosted solutions and has often been used as an argument for buying a customisable application. But clients can find themselves painted into a corner when it comes to upgrades. The approach doesn't take the long view and

custom software frequently cannot match hosted solutions' user-managed configuration options and regular upgrades that seamlessly respond to new market requirements. Further, the hosted software model does not dictate that 'one size fits all', as is often argued. A hosted application can be integrated with proprietary applications or algorithms, or the provider can include in the single source code base a proprietary element that only one client may access. This is still efficient, because that element will be tested, upgraded and applied to the whole application.

Hosted software also offers a high degree of flexibility in the manner of its deployment. The technology enables a wide range of options from complete outsourcing of all related IT functions to certain partial-hosting configurations.

For example, some clients may use an application on a 'pure ASP' basis – that is, access it from workstations via the internet – while others may require hosting by their own IT affiliates behind corporate group firewalls, with traders accessing it via the corporate intranet. Whatever the method, both types of client benefit from an ASP solution's frequent low-cost upgrades.

The move to software as a service represents a vital shift in the concept of software distribution. It helps clients use software more productively over time by enabling low-cost upgrade. It also complements clients' drive to focus only on their competitive advantages. Finally, it better aligns provider and client interests, thereby promoting more constructive dialogues. As a result, in the debate on hosted solutions in the energy sector, the 'ayes' increasingly have it. ■

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