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## How Pricematrix Got Its 'Big Fish'

'We took on a lot of risk to go after Morgan Stanley'

David Pett, Financial Post

Peter J. Thompson, National Post



When PriceMetrix Inc. saw A. G. Edwards Inc. , the giant U. S. broker/dealer it had been wooing as a prospective client for a year, disappear in a US\$6.8-billion takeover by Wachovia Securities in spring 2007, executive management had a decision to make.

The Toronto-based company, which provides pricing and sales intelligence to help brokers better manage their books of business, could either fall back on a successful strategy of reeling in small-to mid-sized brokerage firms across North America, or take another run at a "big fish" brokerage which if successful, would be transformational for the company.

As Doug Trott, PriceMetrix's president and CEO recalls, the choice was clear; the negotiations with A. G Edwards had proven the company's patented ValueOne program could stand up to the demands of a large brokerage.

Instead of falling back on what they knew, they decided to up the ante. Figuring a new pitch to Wachovia might take too long as the company absorbed its takeover, PriceMetrix set its sights on Morgan Stanley, the world's biggest broker/dealer.

"We picked the wrong one [in A. G. Edwards] and probably lost a whole year, but I'm not sure we could have foreseen the [takeover]," Mr. Trott said.

"We were convinced that we had a solid track record and the integrity of our product was such that Morgan Stanley would have the confidence to use our service."

Over the next two years, Price-Metrix proved up to the challenge, answering at every step in the negotiations, Morgan Stanley's rigorous testing requirements and its legal considerations. Even still, the risk of the deal falling through was high, made even more so, given the raging financial crisis of the past 22 months.

"By the time we got into October last year, the market was tanking and then by mid-December there was talk that Morgan Stanley was going to go insolvent, said Mr. Trott. "At that point we were into this for \$1-million. If they disappeared, we were going to be out a lot of money."

Thankfully, the insolvency rumours were just that, and a deal was finally struck and last week PriceMetrix officially started delivery of services to Morgan Stanley.

Co-founded in 2000 by Mr. Trott, and current vice-presidents, Patrick Kennedy and Jeff Marsden, PriceMetrix first took seed when the three were doing some strategic consulting work with Scotia MacLeod and reached the conclusion that the investment firm's team of stock brokers was leaving a lot of opportunities unrealized on their book of business.

After some research on both sides of the border, they came to the conclusion this problem was not unique to Scotia Macleod but also germane to other brokerage houses. But while the marketplace was full of software tools focused on managing their client's money better, there was a dearth of applications designed to help

brokers better manage their own business of clients.

"We went back to Scotia and said we have an idea of how this might work and they said sure. So now we had a buyer but no product. We had to figure out what do we do now."

Within six months, the original version of the company's ValueOne software was up and running and thanks to continued growth over nearly a decade, a much more advanced platform is now in place supporting sixteen clients and roughly 16,000 investment brokers on both sides of the border.

According to Mr. Trott, the advantage of ValueOne is its ability to compare what brokers across different organizations are doing to achieve success. Each month clients send PriceMetrix their respective data on every trade and every open position. The data is then compiled to manufacture an anonymous electronic and paper report, ranging from eight to fifteen pages, which is then distributed back to the clients and their brokers.

Representatives then use these lists to help identify opportunities within their book, assisted by a host of online spreadsheets to help them make decisions. They can also contact client managers over the phones that are able to suggest ideas if not outright solutions.

"We liked it and realized almost right away that we could get some economic lift, says Walter Robertson, president and chief executive of Scott & Stringfellow based in Richmond, Va..

He signed up his full service brokerage firm five years ago, looking to help his representatives squeeze more yield out of their pricing and found out almost immediately that most of his brokers were automatically discounted too greatly.

"It turns out that almost 40% of our trades were priced the same as Fidelity's discount brokerage. After the second year of using the platform, we picked up 3% more revenue because of smarter pricing, and that went right to the bottom line."

With Morgan Stanley now on board, the product is expected to get even deeper and richer given its wealthy customer base.

Mr. Trott thinks the deal firmly establishes PriceMetrix as a leader in its field, and puts the company in an unparalleled position to gain access to the more than 600,000 licensed brokers currently working in North America.

The company has 54 employees and is hiring for eight new positions currently. Over the past year they grew revenues by about 40% and have yet to lose a client over their existence.

"We took on a lot of risk to go after Morgan Stanley and they could have walked away at anytime, Mr. Trott said.

"But the transaction makes our platform stronger and opens the door to other big firms. We can tell people now the largest firm in the world just made the decision to buy us. That's pretty powerful."