Optimizing Market Data Management: Strategic Approaches for Cost Allocation, Vendor Contracts, and Effective Data Utilization

Efficient market data management is fundamental for today's financial businesses, empowering better decisions, enhanced operations, and valuable insights. However, as organizations grow, the cost and complexity of managing market data also expand. Without regular evaluations, unused market data and vendor contracts can persist, creating significant hidden costs and operational inefficiencies. In today's article we discuss the importance of **data lifecycle management** to managing data costs, optimizing vendor contracts, and ensuring data assets remain valuable and aligned with organizational goals.

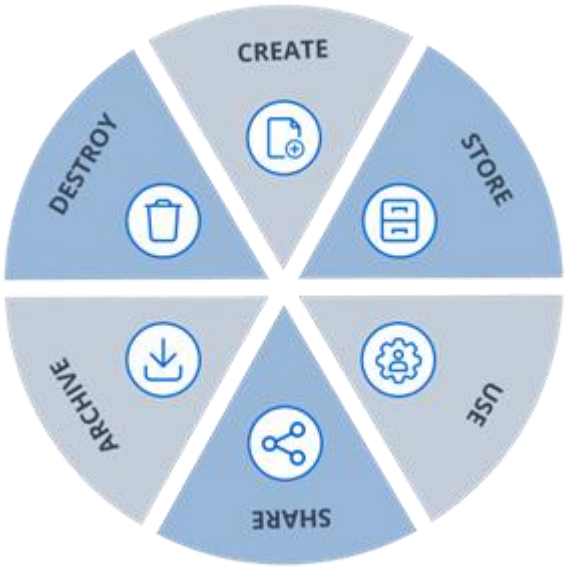

Fig 1. The final step of data life cycle management "destroying of data" is often overlooked.

Unused Market Data and Hidden Costs: A Growing Challenge

Unused data creates hidden costs that often go unnoticed in organizations. Typically, departments follow a standardized process to request data, which is then approved and provisioned by data management teams. While these requests often serve immediate purposes, the long-term costs tied to maintaining and storing market data are frequently underestimated. Data that once served a function can quickly become redundant, yet vendor contracts and data feeds may continue, resulting in unnecessary storage and processing costs.

Unused data introduces several risks beyond financial strain. Outdated or unused data clogs up systems, complicating data management and slowing down data processing times. Additionally, unchecked data can increase the risk of security vulnerabilities, making it essential to regularly evaluate data's relevance and value. Recognizing these hidden costs is the first step in creating a streamlined, efficient data ecosystem.

Examples of outdated or unused market data are :

1. Benchmark cancellations/substitutions

Example: Client XYZ is switching to another Asset Manager so their custom benchmark is obsolete and outdated.

2. Decommissioning of rates

Example: per September 30th 2024 All 35 LIBOR settings have permanently ceased.

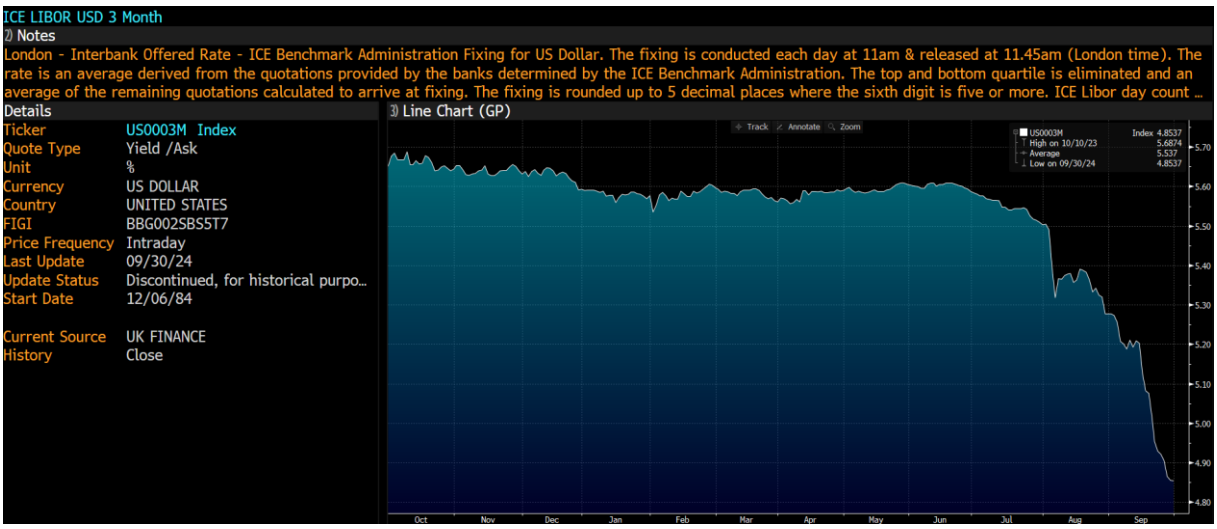

Fig 2. All LIBOR® settings have ceased to be published.

> Yesterday, 30 September 2024, the remaining synthetic LIBOR settings were published for the last time and LIBOR came to an end. All 35 LIBOR settings have now permanently ceased.
>
> The transition away from LIBOR, once referenced in an estimated $400 trillion of financial contracts, has made financial markets safer, more stable and fit for modern use. UK regulators, their international counterparts and market participants have worked together over the past decade to move to risk-free rates ("RFRs"), based on robust data.
>
> Synthetic LIBOR was a temporary bridge to give firms more time to move outstanding legacy LIBOR-linked contracts towards alternative RFRs, allowing for an orderly cessation.

3. Instrument uploads to third party valuation tools

Example: A list of securities that are being uploaded to a third party for valuation purposes. Instruments (e.g., stock X) that are no longer in the firm's position are not removed from the list.

Key Strategies for Minimizing Data Redundancy

Implementing structured, proactive strategies to reduce data redundancy helps financial organizations control costs, maintain efficiency, and prioritize valuable information. Below are three practical methods to optimize data usage:

1. **Departmental Cost Allocation**: Allocating data costs to specific departments creates accountability, motivating teams to evaluate data requests carefully. When departments are responsible for the ongoing costs associated with data feeds, they are more likely to limit requests to only essential data. Department-level cost allocation promotes selective data acquisition, reducing redundancy, and aligning resources with actual needs. This practice ensures resources are used effectively across the organization. VEMA is a robust tool that can keep track of how costs should be allocated.
2. **Controlled Data Requests**: Left unchecked, departments may frequently request new data feeds or data modifications, leading to overwhelming backlogs and inflating data volume. Implementing budgetary limitations for change requests ensures that departments prioritize essential data needs over minor modifications. By introducing a budgeting system, data requests are made judiciously, enabling data management teams to focus on high-priority requests without excessive clutter. This process ultimately reduces costs and enhances the relevance of data assets. VEMA is implementing a data request workflow solution, to simplify the process for end users, Portfolio Managers, Market Data Managers, and the vendor.
3. **Proactive Data Decommissioning**: Regular data audits and incentivizing departments to report inactive data (feeds) can significantly reduce unnecessary data costs. Departments can be encouraged to report unused data points by reallocating the associated budget back to the department, creating a positive incentive. Through regular audits and collaboration with vendor management, data management teams can identify outdated data points and shift resources toward valuable data sets. This approach fosters a streamlined data environment, minimizing costs and ensuring storage resources are devoted to meaningful, active data. Keep an eye out for a future blog post with a detailed Audit template.

Vendor and Contract Management: A Collaborative Effort for Cost Savings

Effective vendor and contract management is crucial to eliminate unnecessary data points and associated costs. Data and vendor management teams need to collaborate closely, reviewing data contracts to identify those contracts or contract items that are no longer essential.

Contracts often include automatic renewal clauses, which can perpetuate agreements even after data becomes redundant. Conducting annual contract reviews helps prevent these unintended renewals, enabling financial organizations to discontinue or renegotiate contracts as needs evolve. VEMA has a robust contract management module to ensure you never miss another renewal.

Shared market data sources present unique challenges when multiple departments rely on the same vendor-supplied data. In such cases, usage-based cost distribution can ensure that departments using more data bear a larger share of costs, incentivizing them to limit unnecessary data requests. This approach encourages departments to review their data requirements closely, reducing overall expenditures and ensuring only essential data points remain active.

Effective Strategies for Cost Allocation in Shared Market Data Environments

While cost allocation can improve efficiency, shared market data sources present specific challenges in multi-departmental settings. Several strategies can help create fair, effective cost distribution:

1. **Usage-Based Allocation**: Tracking and assessing data usage by department allows organizations to distribute costs proportionally. Departments with higher usage assume a larger share of costs, motivating efficient data practices. Usage-based allocation fosters fairness and ensures costs accurately reflect data consumption, promoting an optimized data environment.
2. **Shared Budget Models**: For data points benefiting multiple departments, shared budget models can improve cost distribution and transparency. Departments share the expense equally, and any department wishing to discontinue data use must reach a consensus with other stakeholders. This accountability-driven approach ensures that only data with cross-departmental value is retained, encouraging more selective data usage.
3. **Incentive Programs for Data Reduction**: Incentivizing departments to identify and eliminate redundant data sources fosters a culture of mindful data management. Departments can receive budget adjustments or other rewards for cutting down on redundant data, motivating them to streamline data use and regularly review consumption. Such incentive programs encourage data efficiency and reduce overall organizational costs.

Governance in Sustainable Data Management

Data governance plays a vital role in sustainable data management. Governance frameworks establish guidelines for data acquisition, usage, and decommissioning, reducing the risk of unchecked data accumulation. Effective governance policies emphasize data security, particularly concerning vendor-supplied data, as outdated data feeds can create vulnerabilities if left unmanaged.

Data governance teams can also work with vendor management to include termination criteria in data contracts. For instance, contracts can include performance clauses that specify conditions for discontinuing data feeds. These terms give organizations greater control over data expenditures, enabling teams to eliminate feeds that no longer meet strategic or operational needs. Governance frameworks ensure control over data assets, reducing costs and preventing data bloat.

Conclusion: Continuous Data Optimization for Lasting Value

In today's evolving business landscape, static approaches to data management are insufficient. Continuous data optimization is key to maintaining data relevancy, controlling costs, and supporting organizational objectives. Through proactive cost allocation, structured vendor management, and regular data decommissioning, organizations can reduce data-related expenses and foster a culture of effective data usage.

Departmental cost allocation encourages departments to carefully evaluate their data needs, fostering a culture of responsible data requests. Combined with annual vendor contract reviews and a strong data governance framework, organizations gain better control over their data portfolio, ensuring it aligns with organizational objectives and remains cost-effective.

Though shared data sources and multi-department cost allocation can be challenging, strategies such as usage-based allocation, shared budgeting, and incentive programs can effectively balance costs. Governance policies further prevent data bloat by enforcing acquisition, usage, and decommissioning standards that align with data security and business priorities.

Ultimately, effective data management goes beyond data provision and governance, cultivating an organizational culture that prioritizes responsible data use. Regular audits, cost allocation, and collaboration across departments allow organizations to take a balanced approach to data management, achieving savings, operational efficiency, and an optimized data environment aligned with strategic goals. Through these practices, organizations can transform data from an operational cost center to a high-value, purpose-driven asset.