

Establishing a Brokerage Firm - The Three Channels of Future growth

This post is the third in the 'Establishing a Brokerage Firm' series. The first one drew general layout guidelines for this kind of business. In addition, it discussed setting a work frame - deciding on what services one should offer and determining the target audience. The second post was dedicated to regulatory matters. This post will dive into the three types of business development methods: internal, outsourced, and hybrid. Hopefully, knowing these will help entrepreneurs decide which channel of growth they would like to implement in their business.



Entrepreneurship (Photo by [Shutterstock](#))

An emphasis on technology

Till 2005 online trading was mainly accessible to professional and institutional investors. With the rise of smartphones and the internet, the trading infrastructure has greatly changed, allowing retail users to access these markets as well. This led to a surge in trading volumes and liquidity.

Nowadays, both brokerage firms and investors are primarily interested in applying new technologies to trading platforms. Therefore, entrepreneurs ought to emphasize advancing their frontend & backend and automating most procedures. Even before doing so, an entrepreneur should choose which of the following growth methods they would like to implement:

1. Internal development
2. Outsourced development
3. Hybrid development

Internal Development

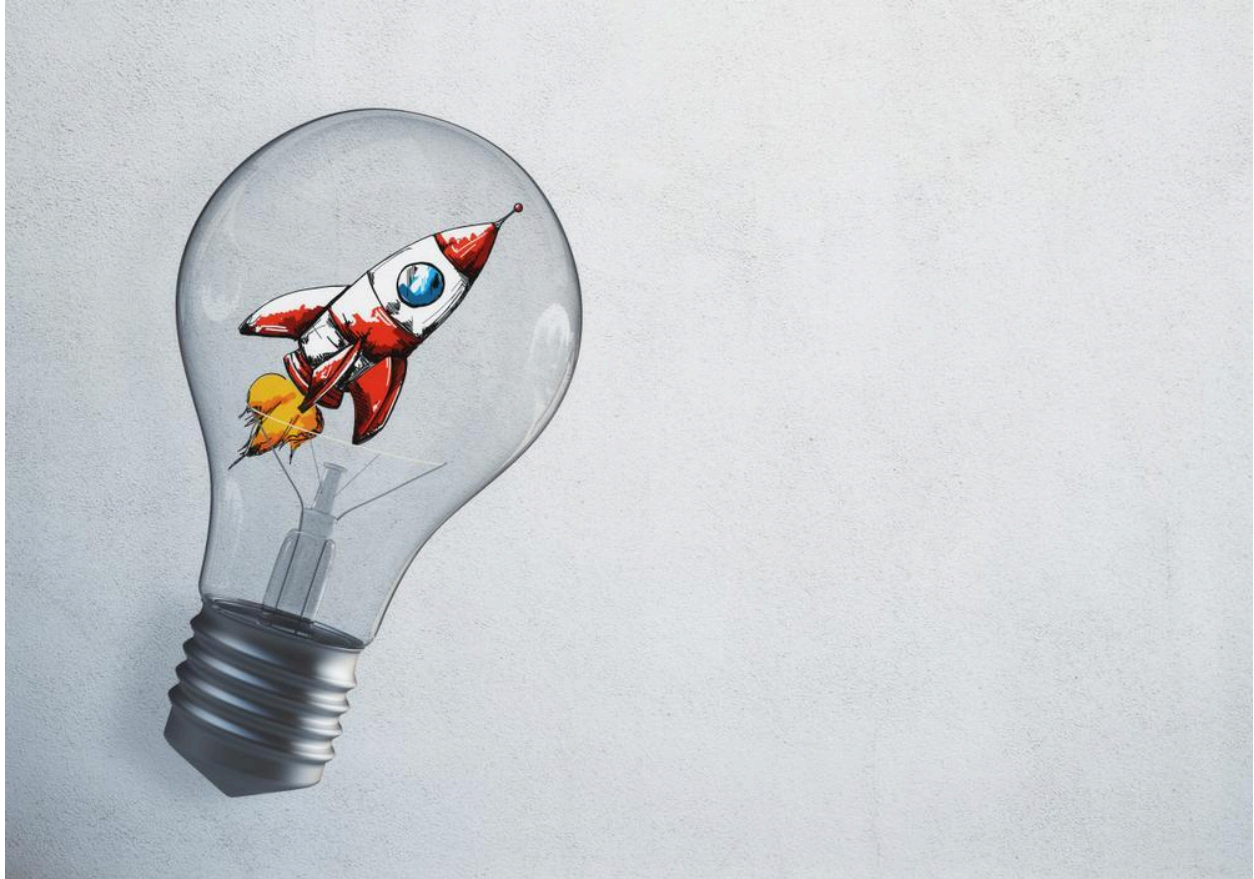
The wish to perform all business procedures in-house is understandable. However, one must know that doing so is very costly. This rustic approach may cost a brokerage brand hundreds of thousands of Euros that will be spent on training, paychecks, systems, and software. Note that this growth model may give a brand an efficiency advantage over its competitors, but it will probably be negligible.

Advantages:

- The entrepreneur has freedom over integration, features, design, and functionalities.
- Internal development allows adjusting processes on the go instead of wasting time waiting for 3rd party developers to complete their assignments.
- The entrepreneur manages their staff. This also means they have complete freedom in picking their crew and directing them toward one's goals.

Cons:

- Expenses for employee paychecks are much more substantial, so not all brands can withstand them.
- Even if one chooses to manage this kind of rustic company, many more services and integrations are still needed for their business that can't be done in-house.



Business growth (Photo by [Shutterstock](#))

Outsourced Development

Many new brokerage brands choose this path of growth, and for sensible reasons. Paying other companies for existing services may free the entrepreneur to focus their funds and time on the things they do best. Moreover, acting in this manner will allow them to deal with improving in-house aspects of the business, for example, strategy, partnership creation, customer service, etc.

Advantages:

- Being a client of another company, one will get a product package with a support network.
- A contractor can supply the brokerage firm with API (Application Programming Interface) for all other integration processes.

Cons:

- In most cases, 3rd party services allow little room for customization and development since they are pre-built.
- Expenses don't end with paying for 3rd party services. Hosting, technical support, and maintenance require more of the entrepreneurs' funds.
- It's important to remember that 3rd party companies have their own priorities. Therefore, one shouldn't expect their needs and wishes from the contractor to be met immediately.

Hybrid development

One can adopt the hybrid approach if one is looking to enjoy both the benefits of internal and outsourced development. This can be done, for example, by implementing a Whitelabel product into the brokerage firm.

A Whitelabel product/service is produced by a business only to be rebranded and sold by another business. The company that purchases the product can add internal developments, making it unique and tailored to the company and its clients' needs. This is a great solution for small businesses since it allows them to distinguish themselves from other brands without the hassle of creating a product from scratch.



Business strategy (Photo by [Shutterstock](#))

Financial knowledge isn't enough

Establishing a brokerage firm demands much more than knowledge of the financial markets. It requires entrepreneurs to raise substantial capital, conduct thorough research, implement great technologies, have advanced negotiation skills, and much more. Establishing a brokerage firm

holds both potential for success and the risk of loss. Therefore, entrepreneurs should prepare for any scenario. The only thing known for certain is that it'll be a long and demanding process.

Having said that, there are more aspects of a brokerage firm's first steps which should be discussed. These will be detailed in a future post.