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When Should Financial Institutions Say "I Do" To Vendors?

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Executive Summary

A couple readying themselves for marriage must understand their respective partner as well as they possibly can. As such, before they say “I do” on that joyous occasion, they must perform respective due diligence. They have “engaged” with this person day-in and day-out celebrating their strengths and supporting their weaknesses. While some couples will opt for a prenuptial agreement, others place their trust in the bond of love.

In the financial services space, a marriage is akin to a conversion project. In many cases, an executive will live through one core conversion in his or her career. In rare cases, an executive may even experience two or three. Experienced consultants, however, immerse themselves into numerous conversions multiple times per year. As a result, they know with a high degree of precision what questions to ask and what language should be included in a contract.

It’s no secret that C-level executives are continually courted by vendors. Unlike grooms and brides to be, however, executives cannot place the wants and needs of their customers/members and employees on a “good faith” proposal. Rather, they need contractual language that will deliver exactly what the vendor promises. And while some executives know “some” of the questions to ask, rarely do they know “all” the questions to query.

Whether a core conversion, online banking or credit card conversion, executives can benefit from partnering with consultants whose intent and strategy is to work with subject matter experts—vendors—to ensure that workflow processes and procedures are executed properly.

The purpose of this white paper is to determine when a financial institution should say “yes” to the vendor proposal. In certain cases existing contracts are either nearing expiration or the vendor is creating difficulties, which requires consultant “counseling.” To this end, executives, along with consultants, share vendor contract experiences as well as lessons learned and best practices. The goal is to have financial institution executives celebrate conversion anniversaries with a big smile. The alternative is a lose-lose proposition for all involved, especially the financial institutions’ valued customers and members.

Culture

To a great extent, a person’s culture and upbringing will determine the type of partner they will choose to marry. In a similar sense, a financial institution’s culture will determine the type of vendors it will attract and enter into partnership.

“We decide about technology and business strategies in the annual planning process, which includes the senior leadership team,” said Bay Federal Credit Union President and CEO Carrie Birkhofer. “We review the list—we always have a list—and then we decide the priority based on what will provide the most value to the organization.” She added, “Priorities are also sometimes driven by contract expirations.”

Like Bay Federal CU, the $805 million Wichita, KS-based Credit Union of America also has an annual strategic planning process with the credit union’s management team and board of directors, explained Chief Information Officer, Richard Logan.

“We have had plenty of vendor issues over the years,” said Logan. “The first step is to try and understand the problem, and then escalate the issue up the food chain and try to resolve it,” he continued. “If it’s a long-standing issue, then you have to assess the actual relationship and possibly change vendors. This requires careful consideration and thought.”

The $900 million Capitola, Calif.-based Bay Federal Credit Union supports 68,000 members and six branches. And like most credit unions, it maintains numerous third party contracts. As such, there have been both successful and not so successful relationships.

“We are very transparent when working with vendors/partners. If we have a concern, then we voice it and work toward a solution,” said Birkhofer. “One of our internal values is collaboration and we apply it also to our partners. If we find we can’t collaborate with a vendor, we often change vendors.”

When it comes to changing vendors or contracts, however, a multitude of issues can arise. And since each vendor’s product is integral to a financial institution’s operations, pulling one module out of rotation without proper oversight is tantamount to toppling a house of cards.

“Contracts are not our forte,” said Logan. “We have attorneys involved in the contracts, but even they do not specialize in core/technology related projects. So they may not know what language needs to be the contract.”

A Day in the Life

How many holes does it take to fill the Royal Albert Hall? According to the famed Beatles song, “A Day in a Life,” the answer is 4,000. What type of core and third party processor does a financial institution need? The only way to answer that question, not unlike The Beatles, is to “live” the experience.

“We are often asking our clients to provide us with a ‘day in the life’ of all processes and how they go about their work,” said Samaha & Associates Managing Consultant, Adam Denbo. “We go department by department analyzing their workflows and understanding the multiple systems they are using today and then determine how we can optimize that into best-in-class standards.”

Samaha & Associates counts both Bay Federal Credit Union and Credit Union of America as valued clients. In most all cases, Denbo said selecting a consultant is more important than selecting a vendor as it makes no sense to place a cart before a horse.

“Consultants have the advantage of obtaining experience by working with many different clients,” said Birkhofer who has hired Samaha &

Associates for implementations, workflow studies and vendor selection. "They often bring a perspective that is important to a team that has worked in one place for many years. In addition, they can save money by understanding negotiating opportunities."

Logan explained that Samaha & Associates was hired to undertake the credit union's core conversion as well as to assist in existing contract negotiations. On one of these contracts, for example, Logan and his team realized a 20 percent savings over the course of the contract.

"We just don't do contract negotiations every day, so we do not have the expertise," said Logan. "Samaha & Associates provided a level of escalation with the vendor and conveyed what is important to us. The escalation process was slower without them."

Logan further explained that Credit Union of America's core conversion was streamlined, in part, by Samaha & Associates comprehensive vendor rating system. This approach allowed Logan and his team to understand the limitations of certain solutions.

“The core solution is so incredibly complex with thousands of moving parts,” said Logan. “Determining what’s important and how to rate what’s important was critical to our success.”

Vendor Courting

Whether selecting a new vendor or negotiating a contract with an existing vendor, there are proven best practices and tools of the trade, such as a request for proposal (RFP) that coincides with the bidding process.

“We are both like quarterbacks and counselors,” said Denbo, who added that each Samaha & Associates’ client’s RFP is unique to the financial institution and can contain upwards of a 1,000 tailored questions. “Our job is to bring the best representation of the financial institution’s personality at a strategic and tactical level. We seek opinions and input to strengthen the platform and streamline workflow processes.”

Bay Federal Credit Union has benefited from this proven approach, explained Birkhofer. “We go out for bids and then we compare bids,” she continued. “We work with consultants on big projects and assemble a cross-functional team to assess the product and services and we make the decision based on the team feedback.”

To ensure there is always proper oversight, and not simply a willingness to “elope” with vendors, Birkhofer said that an executive team member serves as the executive sponsor and is involved, along with the credit union’s attorneys, on all negotiations.

“We do what we need to do to remove as many uncertainties as we can,” she noted. “We go on site visits. We take our time and we never feel forced.”

Not feeling “forced” is essential to arriving at a winning contract and a longstanding fruitful relationship, explained Denbo. Equally important, he said, is understanding that new core and third party systems require new approaches. As a result, mediating vendor relationships and measuring expectations is critical.

“Senior executives oftentimes are too trusting of what the vendor’s account representative says and promises. They are looking to sell an additional service or module,” said Denbo who added that most sales representatives in the industry have upwards of 50 clients at any one time. “What executives do not always understand is the motivation of that account representative and their managers, which is based on sales and commissions. Solving problems is often secondary to the sale. ”

If a contract is signed without oversight and there is a problem down the line, that same sales representative is forced to go back to the company, which is often understaffed with customer service representatives, to hopefully address the financial institution’s issue. And while Denbo said many vendors are honorable and forthright, they are not always aware of how modules and services interface with a core processor or online banking platform. Consultants are well-versed in these intricate differences.

“These vendors are often stretched and taxed within their environment—so where is the incentive to fix the problem?” asked Denbo. “Phone calls to vendors often are defined by a desperate cycle of reassurance and disappointment. The vendors’ goal is to diffuse not solve the problem. Financial institutions need a trusted ally—a watchdog that will look over their shoulders for years to come.”

Proactive financial institutions understand Denbo’s perspective. At Bay Federal Credit Union, for instance, every vendor is assigned a senior leadership team owner. If a contract is up for renewal, the business integration technology team is alerted.

"They build in time in order to review the contract well before we need to give proper notice based on the contract terms. Then, we go out for bid and make a determination on whether or not to stay," said Birkhofer. "The senior leadership team member negotiates the renewal with the EVP sponsor and then the contract is presented to the CEO for signing."

Conclusion

Like courting a potential mate for marriage, before signing a vendor contract, C-level executives must do their due diligence, which takes time, and also requires a deep-gap analysis. When executed properly, a true, bi-lateral agreement can be achieved.

"In most cases, consultants know whether a solution is the right choice without getting the vendor involved, which helps to streamline the process and ultimately results in selecting the most appropriate vendor and contract terms," said Logan.

While a couple never assumes divorce is in the cards when they say "I do," the fact remains that over 50 percent of marriages in the United States end in divorce. And in many cases, it may prove more difficult and take longer for a financial institution to separate itself from a vendor contract than spouses from a fractured marriage.

"Once the ink dries on the vendor contract it becomes much more difficult to turn back," said Denbo. "The more time C-level executives afford for self-awareness and processing will make for a more predictable outcome."

Sabeh F. Samaha is president and CEO of Samaha & Associates Inc., a Miami, Fla. – based consulting group that works collaboratively with Financial Institutions to help improve business processes by optimizing efficiency and increasing revenue opportunities. Whether it is vendor contract negotiations, system conversions or mergers, Samaha Associates, understands what gets the job done from beginning to end. Sabeh can be reached toll-free at (855) 772-6242 x2020, sabeh.samaha@ssamaha.com or www.ssamaha.com.