Vendor Selection: More Choices, More Difficult
by Charles Wendel

The digital revolution requires that banks partner with vendors in an ever increasing array of areas, including digital applications, LOS, payments, credit analysis, risk management, marketing analytics, fraud prevention, among others. The list goes on and on; some areas overlap or have the same vendor serving more than one area.

It's complicated for banks trying to decide which firms to work with, and banks seem to be finding it harder than ever to differentiate between vendors and select the one best for them. Last week one senior banker expressed frustration in describing his bank's situation. Vendors unsuccessfully try to get through to him on the phone while many others email information that he ignores or opts out of. He simply does not have the bandwidth or knowledge to deal with them. He and other line heads leave it to product and other staff people to screen vendors. They too are stretched between multiple responsibilities and do not always get clear selection parameters from the line, assuming the line is even in agreement concerning its needs.

The result is that many quality vendors never get a hearing by a bank or other FI, and, too often, the bank selects the wrong or "not best" vendor.

Not surprisingly, vendors are also frustrated. The recent American Banker Small Business Conference featured two sessions of brief demos by companies showing their capabilities in areas such as digital application, LOS, and analytics. Each had a few minutes to describe their focus, differentiate themselves and persuade a bank to come to their booth or sign up for a demo. Hard to accomplish. In my view, several of the presentations were unclear: What was the benefit to the buyer? Why them versus the others? A blown opportunity.

Can either a vendor or a bank describe what it wants in a classic 15-second elevator pitch? The best vendors emphasize one-two elements that distinguish them from others. They know where to focus and avoid, based upon their strengths and perceived market opportunity. Just as vendors emphasize their strengths, the banks that select vendors with the greatest focus and process efficiency define their needs.

At the same time the vendors themselves are changing both in their ownership and focus. In recent months two small business platforms were acquired: Akouba by Velocity Solutions and Mirador by CUNA. Q2 has also acquired a number of companies. The big Core providers continue to be acquisitive. Issues include:

- How should a potential or current bank partner view these acquisitions?
- Is it a positive or negative for a bank, or should they care?
- How does a bank even make that determination?

- And, does the acquired vendor still have the same degree of autonomy, and can it provide the same level of customer service while becoming part of a bigger entity? Banks will be skeptical about this.

When both parties define capabilities and needs succinctly, banks make the right choice and vendors have the right client. One vendor recently told me that he won a deal with a super-community bank, winning out over much bigger and better known Fintechs. He mentioned several reasons, among them the bank's desire to control the software (no white label) and wanting to work with a partner that could both consumer and business capabilities. His firm was able to check off those boxes. But, other firms possess strengths attractive to larger banks that this smaller vendor could never match and might not even want to.

This bank that set the criteria did a service to its vendors and itself. The bank knew what it wanted (assuming it selected the optimal criteria) and, therefore, could quickly focus on the two-three vendors that best met its needs. That same vendor said that 80% of the time he does not lose to another vendor; instead, the banks decide to make no decision or, in his words, "They were fishing…Most banks under $50B are still kicking tires."

That's fair enough, as banks are learning their options and reaching out to understand the landscape. But, 2019/2020 should represent a tipping point for the industry. It is becoming a time when it is clear that ***finally***, failing to develop multiple Fintech partnerships is more dangerous for a bank and its executives than doing nothing.

Banks should start by building an internal consensus on what they want from a Fintech relationship. That is easy to say but, in our experience, it is an elusive goal and difficult to achieve for most banks. Many banks are driven by consensus; consensus both takes time and may result in a homogenized recommendation that fails to address the bank's critical long-term needs. We have seen that in the LOS sphere where banks take an one-off initial step (for example, a digital application) without considering how it fits in to a longer-term game plan, potentially resulting in the need to replace that first vendor.

Fintechs were smart to start out focusing on one core capability, like a small business platform or a digital app. However, now we see bank clients wanting to work with a vendor that can provide multiple solutions and address multiple niches, often across business lines. (For example, a digital application for consumer can be adapted to small business.) The bank's view is that they know the vendor, have already conducted due diligence, and can build off the existing relationship. While starting with strength in one functional area, more vendors need to have an expansion plan in mind from day one.

There is no easy solution either for vendors or banks. Banks are unlikely to change current selection processes. Vendors face the continuing challenge of how to present themselves to FIs so that their capabilities are clear and they rise to the top in the review pile.