Market Overview

System Change Contemplation Weighs Heavy on CEO Minds

By Peter A. Jeye, President & CEO of Next Step International, Inc.

Vendor consolidation, powerful new capabilities, and escalating competitive pressures are causing many to explore a core system change - but when is the right time for your credit union?

In 24 years of managing core system conversions, I have never met an executive who woke up one day and said "I would love to do a system conversion this year!" Of course not. Core system conversions are larger than life when it comes to enterprise wide initiatives with potential risks. With that said, the benefits and opportunities presented by a core system conversion can set the stage for a transformation within an organization giving rise to increased efficiencies, improved market responsiveness, and better agility for growth.

The state of the core system vendor industry right now is dynamic and no less than truly exciting. Major players are acquiring strong companies and products with proven track records. Vendor executive teams are pouring millions of dollars into further research and development. Credit union evaluation teams around the country are finally getting a reason to say "Wow!" during system demonstrations. Technology with real benefits for the end-user and member is being released into the marketplace faster than in many years.

Intense competition among the vendors is fueling the acceleration of system advancements, especially in the areas of workflow, contact management, sales tracking, relationship pricing, single view repository of member information, business intelligence tools, imaging, business services functionality, and depth of basic core functionality. Sure, there are always numerous more improvements to be made, but the systems have progressed an exponential distance, especially since Y2K.

So what's a CEO to do these days? Should you launch an evaluation of options or stay status quo?

Let's review common scenarios, one of which your credit union may fit into.

1) **"We Feel Constrained By Our Vendor and System"** This scenario is perhaps the most visible and pervasive issue for a credit union needing to evaluate system options. It shows its face in various ways, such as the credit union's inability to market new products or variations of products with ease and timeliness.

   You may hear statements like these at your marketing meetings: "We are trying to fake the system out" or "We are brainstorming a work-around" or something very similar.

   Another face of this issue pops up with system integration. The lack of your credit union's ability to easily get separate systems to exchange

A core system conversion can set the stage for a transformation within an organization.

information in both directions (in and out) and to do so in a real-time fashion are common symptoms in this situation. If you're having issues in this area, you may hear: "Oh that's going to require the vendor to create custom code for a significant price" or "They don't have an interface for that system - we would need to build it ourselves" or "We are spending far too much time and money on keeping our custom code up to date with the vendor's new releases".

Constraints forced upon you by the core system will force you to work within prescribed methods. Most often this scenario occurs at growing credit unions. The vendor and system served the organization's needs satisfactorily for a number of years, but since then the credit union may have doubled or tripled its assets and membership. To support this growth, the credit union needs to offer more comprehensive and innovative products and the need to do so continues to proliferate each year.

If your credit union is feeling the "constraint crunch," you owe it to your members to explore your options.

2) **"We Need Better Support and Service From Our Vendor"** Nothing is more effective at killing a vendor/credit union relationship than bad service. If your credit union is not receiving excellent support and service from your core system vendor, it won't be difficult to detect. If your management and staff believe the vendor is providing excellent service, there is a >90% chance that your credit union and vendor also have an excellent "partnership". This means your people and the vendor have a day-to-day relationship that displays mutual cooperation and clearly has everyone pitching in to achieve your goals.

When there is a partnership, the vendor knows your organization. Their account manager will spend time two, three, or four times a year (for large institutions) meeting with each of your credit union's executives and business units to understand their increasing system needs and frustrations. In return, the account manager will bring to the credit union comprehensive updates on their latest and upcoming system enhancements, best practice insight from other clients, and ideas for increasing utilization of capabilities already in the system.

Likewise, when there's a partnership, you will regularly hear your staff make positive comments about the vendor's telephone support such as, "Call the hotline, they really know their stuff" or "Let's give them a call, they'll help us through this issue".

Unfortunately, sub-par support is just as visible and prevalent, but in a negative way. You will hear stories of broken promises by the vendor, slow return calls, lack of knowledge, and rare onsite visits that tend to simply focus on IT or sales. Unsatisfactory support from your core system vendor is like a ball and chain strapped around your leg and constantly drains your ability to reach your goals.

If your institution is experiencing less than desirable support and service, you must address it now. In all likelihood, it has been building over a period of time and the longer you wait, the harder it will be to overcome.

3) **"We Do Far Too Much Work Manually"** Why are we still doing so much manually? If this sounds familiar (and to many, it will), you have opportunities abound. Basically, manual work is work done by your staff rather than by the system. It is astonishing how much work is still completed either entirely by staff or with much staff intervention with the system. The extent of this problem at your credit union can be deciphered rather easily. If you want a quick read, ask your middle managers and supervisors at your next management meeting how much work is done manually by their staffs.

The good news is there is lots out there to help cure your ills, and much more to come in the next few years. The primary vendors are working overtime on issues such as workflow which will bring very measurable impact to credit unions.

4) **"Our Vendor Contract is Coming Up For Renewal"** The term of most vendor contracts in the industry today is either five or seven years. Assuming a five year term, your antennas will be starting to perk up again in year three, as most know you will need to allocate approximately 18-24 months to first select a new system and then convert to it. But should you take a look at new options?

The answer should be "No!" — if your institution did the necessary homework the last time you selected a new system and went about it with a ten year vision. Unfortunately, many system decisions are made without spending enough time uncovering the detailed needs of the credit union and the detailed capabilities of the prospective systems.

As a rule of thumb, if your contract is coming due and you selected your current system within the last five years, you should at least take a refreshed look at your institution's functionality needs, what your vendor is doing to meet those needs, and your vendor's "technology roadmap" (where they are heading). I also recommend a hearty look at your vendor's momentum in the industry, including won and lost clients.

Every credit union does have unique needs and interests. Your credit union must spend the time necessary to understand itself and its related technology needs.

On the other hand, if you have been riding the same horse for, let's say, seven to ten years, you should plan on a comprehensive review of vendor options. With the speed of technology advancement, one cannot assume that the vendor that best suited your needs seven to ten years ago is still the best solution for you today.

Of course, the "constraints", "automation" and "support" issues mentioned earlier should also contribute to your decision to explore or stay home.

5) "Our Vendor Was Just Acquired"

What do you mean "My Jaguar is now a Ford?" It is amazing how fast the landscape can and has changed, especially in the vendor marketplace. The only factor that could cause faster contraction among the vendors would be the release of the "perfect system"!

The fact of the matter is that vendor consolidation is causing a rising number of system conversions as the acquirers often plan to sunset the systems they have acquired in due time. This is not always the case, but often the motivation for purchasing the other company is to gain access to their client base and migrate them to the parent company's mainstream system.

If such a vendor acquisition hits your home, you must listen to the music along with the words coming from your "new" vendor's CEO (acquiring company). If a key focus of the message is "keeping your current system up to date with the latest regulations" and not future development plans and needed enhancements, you can bet your last penny you will be heading towards a forced conversion down the road.

Your core system is your organization's central nervous system. It is mission critical to your credit union and any plans to replace it should be controlled by you, not an outside entity. So my advice in the "my vendor was just acquired" scenario is to take the bull by its horns and begin planning your strategy immediately.

Gather as much intelligence as possible on the acquisition from the acquiring company, your current vendor (the acquiree), industry experts, and fellow clients. If the end result appears obvious (again, listening to the music along with words), then you should plan to start your evaluation in the near future.

Timeliness is very important as your forthcoming search and conversion will take significant time to complete. The longer you wait to get started, the higher the risk of experiencing degradation of support and service levels at your current vendor as their strong employees begin their migration to the acquiring company's system or exit altogether.

Especially if your credit union is one of your current vendor's larger clients, you can expect quite a bit of "sales" attention from the acquiring vendor. Their main goal is to avoid efforts of a full scale search on your part. This is not necessarily a bad thing. Give them the time of day as you may have an opportunity to learn a bunch about their plans. But in short order, you should integrate them into your overall structured evaluation process. Although it does happen, it's not often that a large credit union selects the acquiring vendor's system without first comparing it to other leading candidates. I recommend taking the opportunity for your evaluation team to learn what's out there and make a decision that will last (at least) the next 10 years.

6) "Our Vendor Has Announced a Rewrite"

Nothing seems to rattle the nerves of CIOs and CEOs more than their vendor announcing (usually at the annual users' conference) that they will be rewriting "your" core system or migrating it to a new hardware platform. This type of activity has become more commonplace of late as rising competitive pressures among the vendors and sheer technology advancement are causing vendor executives to move their systems forward or be left behind.

In all cases, this scenario will cause your credit union to go through some level of change. A complete system rewrite will require a conversion, no matter what spin is put on the story. You will be looking at converting your member data to the new system's fields and parameters, conducting detailed acceptance testing, and training your end users on how to use the new system.

Hardware migrations (often caused by the hardware vendor discontinuing a product line) can be less severe. At a minimum, you will be looking at back-office training on the new hardware, "moving" (versus converting) your member data to the new platform, and performing acceptance testing to ensure the new environment functions correctly.

Keep in mind, the overall hardware migration project can be much more substantial on your organization if the core system vendor chooses to release major new upgrades or modules at the same time, such as a new front-end to the system, new general ledger system, etc. These types of new components will require a further level of detailed testing and broader end-user training.

If either the rewrite or hardware migration knocks on your door, you will be hard-pressed to argue the logic of reviewing other alternatives. The reasoning you will most likely hear in the Board room and around the water cooler will be: "If we have to go through a conversion or migration anyhow, why not take the opportunity to look at other alternatives?". In most cases, I consider this perspective as sound and justifiable.

Like with other scenarios discussed earlier, timeliness is very important. The earlier you start your evaluation project, the more time you will have to do a comprehensive job. Waiting until your current vendor's sunset date is on the visible horizon can cause a rushed and very risky process.

An Abundance of Good Choices

What's very nice for you is there are numerous vendor and core system choices in the marketplace, even after recent consolidation. As I tell my clients, get ready because the systems truly are very different from one another. It's obvious that one genius did not program all the systems and that's a good thing — because every credit union does have unique needs and interests. Your credit union must spend the time necessary to understand itself and its related technology needs. From that framework, you will be able to proceed and discern the vendor differentiators that are important to you.

You will find vendors that pour a substantial majority of their new enhancements and modules straight into the core system. You will find others that prefer a best of breed approach by providing the interfaces and toolsets to enable you to utilize many third party systems. And you will find others that provide most ancillary systems you desire right from their own company or parent company (thanks to acquisitions).

No matter the approach of the vendor, you must accomplish the following to secure a smart system decision for the long term:

1) **Integration Match –** In my mind, openness is only as good as the level of integration it promotes. You want all core system modules and ancillary systems to share member information, history, and business intelligence. This includes information to and from each member's "external" accounts (such as credit cards). How it is accomplished and the degree of flexibility provided is typically a heavy deciding factor for credit unions these days as the vendors have different integration strategies and beliefs.

2) **Functionality Match –** Conversion is not the time to find out whether your new system has the horsepower and options to meet your business requirements. Each vendor has strengths and weaknesses. Vendor A may be the right match for ABC Credit Union but the wrong match for XYZ Credit Union. It all depends on your unique requirements. Your team has the responsibility to identify the functionality gaps (voids) and the areas where the vendor meets your specific requirements.

3) **Architecture Match –** The vendor industry has approached the architecture issue with different strategies, so get ready for a world-wind tour on this topic. The key here is for your organization to gain a level of understanding that enables you to articulate the value that one approach brings versus the other to your credit union. What should not get in the way here, however, is how one approach may change your IT Department versus the other. Remember, change is not always

bad and to move forward you may have to leave Linus' blanket behind.

4) **Partner Match –** Selecting a core system vendor is like selecting a marriage partner. By the time you sign those contracts, you should know the vendor's management team, their history of support and service, their conversion successes/failures, and their willingness to get you through tough times and help guide you into the technological future. "Being ready to act gladly" is an important cultural characteristic and can only be assessed by spending structured time with the vendor's senior management and key clients.

5) **Price Match –** The price tag of the new system is always important as you have a responsibility to your Board and members to ensure your credit union receives the best value from the new technology investment. Keep in mind that the vendors bundle their system components differently and have a mixture of approaches to charging for professional services, especially conversion assistance. It is critical to spend the time to create an apples-to-apples comparison in order to avoid surprises later during the conversion process. My strongest advice is to be sure all components (including ancillary systems and third party products) have been included and to understand how the vendor's pricing adjusts as your credit union grows assets and membership. Their pricing model should make the cost of growth economical, not expensive.

If you do a comprehensive job on these criteria, you will be a happy camper for years to come. Always remember, make sure your team dives into the details with a handful of pre-qualified vendors rather than skimming the surface with many. If you are currently running a system from one of the leading vendors (who has momentum) but you are experiencing some of the problems mentioned in this article, I encourage you to seriously consider involving your incumbent vendor on a equal basis in your evaluation project.

Peter A. Jeye is President & CEO of Next Step International, Inc. (www.nextstepinc.com), a consulting firm specializing in core system evaluations and conversion management.