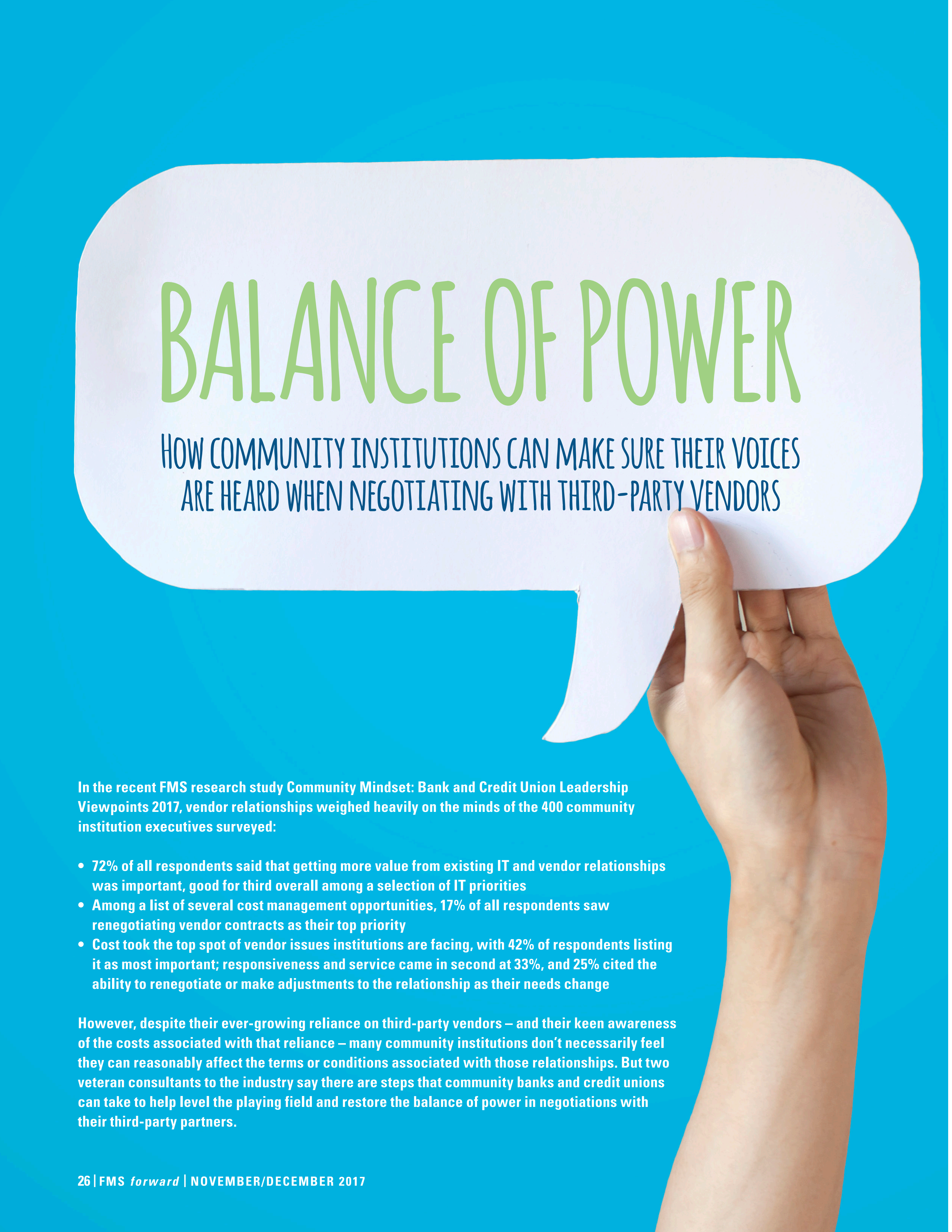

BALANCE OF POWER

How community institutions can make sure their voices are heard when negotiating with third-party vendors

In the recent FMS research study Community Mindset: Bank and Credit Union Leadership Viewpoints 2017, vendor relationships weighed heavily on the minds of the 400 community institution executives surveyed:

- **72% of all respondents said that getting more value from existing IT and vendor relationships was important, good for third overall among a selection of IT priorities**
- **Among a list of several cost management opportunities, 17% of all respondents saw renegotiating vendor contracts as their top priority**
- **Cost took the top spot of vendor issues institutions are facing, with 42% of respondents listing it as most important; responsiveness and service came in second at 33%, and 25% cited the ability to renegotiate or make adjustments to the relationship as their needs change**

However, despite their ever-growing reliance on third-party vendors – and their keen awareness of the costs associated with that reliance – many community institutions don't necessarily feel they can reasonably affect the terms or conditions associated with those relationships. But two veteran consultants to the industry say there are steps that community banks and credit unions can take to help level the playing field and restore the balance of power in negotiations with their third-party partners.

Bob Roth

Partner – Cornerstone Advisors

As the former CIO of a midsize bank, Bob Roth knows a thing or two about dealing with third-party vendors – a wealth of experience that he now shares with his clients at Cornerstone Advisors. While Roth believes that these relationships should indeed be true partnerships, he is both straightforward and unapologetic when it comes to his advice for community institutions preparing for contract negotiations – he frequently refers to philosophies espoused in Sun Tzu's *Art of War*.

In addition to emphasizing service levels and working hard on cost-of-living adjustments, Roth offers the following top five tips for vendor negotiations:

- ☐ **Don't accept discounts at face value**
  "A 20% discount in banking technology could still leave you 15% to 20% above market. If you take anything away from this list, it should be this – the variances in pricing for banking technology are not rational."
- ☐ **To the extent you can, save your new product purchases until renewal time**
  "Buying in bulk will give you leverage with your vendor to compress your current prices."
- ☐ **There is nothing like issuing an RFP at renewal time to get a vendor's attention**
  "Vendors are only going to negotiate aggressively with those clients who show signs of being serious about leaving – issuing an RFP is the clearest of signs."
- ☐ **Align your termination dates**
  "Everything added during a term should be set up to terminate at the same time as the master agreement. Leverage only comes IF you can move your services. If your termination dates are strung out, it becomes much harder to convince the vendor that you COULD move."
- ☐ **Get some help**
  "This is a very opaque market, and it's going to be that way for the foreseeable future. Your only recourse is to enlist the help of someone that can see behind the curtain."

Adam Mustafa

Managing Partner, Client Delivery and Development – Invictus Group

With a broad background in the financial services industry, Adam Mustafa has seen plenty of contract negotiation opportunities that community banks and credit unions either didn't recognize or didn't think they could capitalize upon. His five tips are focused on trying to remedy that situation and building a bridge between institutions and their third-party providers.

- ☐ **Build relationships with your vendors**
  "While there's nothing wrong with negotiations and leverage, you do not want to start a new relationship with a vendor on the wrong foot. You should have chemistry with the key people you deal with at your vendor and get to know them. Little things like telling them thank you or recognizing in an email to their boss how great a job they did pays off in spades. The stronger the relationship, the less aggressive the vendor will be on terms and conditions at renewal time."
- ☐ **Don't be afraid to be an early adopter**
  "When you take a chance on a young company, you not only get a great price, but you may provide your institution with a competitive advantage. The tradeoff is that you have to be flexible and understanding while the vendor works out their kinks."
- ☐ **Always have a backup plan**
  "The better the backup plan, the more leverage you have and the more terms become available to negotiate. This is Negotiating 101, but many management teams fear rocking the boat in the short term for the benefit of the long term."
- ☐ **Don't negotiate in a vacuum**
  "Understand how this contract can affect your overall big picture. For example, if there is a chance you could sell the institution within the next few years, you shouldn't enter into long-term contracts with big breakup fees. Likewise, if you plan to be an acquirer, negotiate the integration fees up front."
- ☐ **If you're satisfied, offer to serve as a referral, give a testimonial or even proactively recommend the vendor's services to your peers**
  "Vendors – especially startups – will often agree to price breaks. Customer acquisition costs are their biggest expenses and there is no better marketing piece than word of mouth. I've even heard of situations where your cost can be reduced each time a referral leads to a sale." ▪

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