PUNISHED FOR GROWTH

paladin fs

SITUATION

Executives at HomeTrust Bank, a then $1.6 billion asset bank located in North Carolina, became suspicious of their core IT supplier's pricing and contract commercial terms. Although they were assured time and again they had the "best pricing for the services they were receiving when compared to other clients their size," bank leaders were not convinced they were being rewarded for the cost efficiency associated with growing volume so rapidly through M&A. Instead of the cost curve going down, demonstrating efficiencies, it was bending up like a hockey stick. They were paying excessive fees for conversion, de-conversion and termination even when they were purchasing a bank processed by the same vendor. The bank had already acquired three smaller institutions and was anticipating four to five more in as many years. The problem was that there were still four years left on their recently signed five-year supplier contract. The vendor was firmly resistant to reopen it so early as they further assured HomeTrust was receiving the best possible pricing even with respect to acquisition activity.

STRATEGY

HomeTrust contacted Paladin to see if they really were getting a fair deal on their core services and if their contract terms were well-positioned to reward their shareholders for future mergers with increased profitability and deal accretion. Paladin completed an assessment, and right off-the-bat found the existing cost structure was in excess of $1.4 million over fair market value. Additionally, the legal contract was void of any merger-related commercial terms that would benefit the franchise for hyper-growth. Essentially, the bank was being punished whenever they bought another institution. Ironically, they were being punished even more if the bank purchased an institution processed by a competitor such as Jack Henry or FIS. Why would a bank be penalized for delivering the volume and revenue of a competitor to their incumbent vendor when that supplier has absolutely no acquisition costs?

Acting as an agent for the bank, Paladin went to the supplier with a strong business case and requested they reopen the contract and modify the current and future pricing structures and commercial terms specific to mergers so they could truly partner with the bank in further acquisitions.

Additionally, there was a long list of unresolved service problems plaguing the relationship and eroding goodwill between vendor and bank. Paladin compiled and organized the list into a separate scope of work that the supplier would ultimately agree to complete as a contingency to the bigger restructuring. The service issues needed to be fixed and the price needed to be fair for the deal to work. Paladin additionally gained leverage in the negotiation process by asking for money on behalf of the bank when a service level was missed, grabbing the attention of upper-level supplier executives and forcing process improvement. By getting on the radar of these higher level decision makers, Paladin was able to lock the right type of sanctions into the agreement to make the vendor comply with their service level and maintain their commitments. Most all core IT agreements today, regardless of the supplier, list Service Level Objectives masquerading as Service Level Agreements. SLAs have real financial teeth in them while SLOs simply outline modest remedies using laborious processes that heavily favor the vendor.

RESULTS

- **Immediate cost reduction of $1.4 million**
- **Implemented merger package terms resulting in cost reduction of $5-8 million over projected future acquisitions**
- **Overall improvement to SLAs and the elimination of various other one-sided terms**

San Francisco | Chicago | New York | Dallas • info@paladin-fs.com | **877-746-4859**