

11

Steps to a Successful Core Vendor Evaluation & Selection

Sheshunoff
CONSULTING + TECHNOLOGY

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Before you make an expensive, long-term decision—

Get the answers you need to select the best core vendor and technology partner for your bank.

Choosing the best core vendors for your bank can make the difference between employing technology effectively and profitably, or putting the bank's capital, time, and reputation unnecessarily at risk.

Once selected, you'll be living with your technology decision for the next five to ten years. Make the right choice and the whole bank benefits over the short term and long term. Make the wrong choice and the negative effects can reverberate throughout the bank, from service quality to regulatory compliance and ultimately, to the bottom line.

Our years of experience helping hundreds of banks make technology decisions prove to us that taking these 10 steps is critical.



Align the Strategic Technology Direction with the Bank's Overall Strategic Direction and Outlook—

What is the overall strategic direction of the bank?

You have to know the long term strategic goals of the bank overall (i.e. growth, branching, new products and services, etc.), in order to identify and select technology solutions that fit your requirements both today and more importantly, where you want to be in the future. Otherwise you run the risk of implementing a solution that doesn't fit your bank's vision or strategy and the cost of switching later can be two to five times your annual technology expenditure amount.

Often times the bank's strategic direction is unclear or ill-defined. In these cases, we recommend that the bank take a step back and work on clarifying the overall strategic direction and outlook for the bank. Without this direction as a guiding light, all too often the bank's technology decisions end up driving the overall strategic direction by accident. One example of this situation is in the case where the bank's exit strategy horizon is three to five years out but their core processing contract runs for seven years with huge early termination penalties. This liability will not only have a dampening effect on the pool of potential acquirers — it will also negatively impact the offering price as well.

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Appoint an Internal Technology Vendor Evaluation Team—

Who at the bank has the expertise and broad perspective to evaluate individual vendors and their products?

There are often capable individuals at the bank who, given the time and resources, can select an appropriate technology vendor. This effort should not be driven from an information technology perspective — instead it must be a business-led effort based upon the business requirements of the bank. Senior managers and employees that represent each of the major business functions can bring broad knowledge of your bank's business, operations and existing technologies to the process. This team, typically comprised of six to eight members, will be responsible for determining both business and technical requirements, identifying potential solutions and vendors, preparing the necessary requests for vendor proposals, evaluating the resulting proposals and recommending a technology vendor and solution to senior management.

3

Complete a Technology Assessment—

Where are you in terms of understanding what technology your bank already has?

A current technology audit is integral to understanding the current technology environment and then mapping the future needs of the bank to determine the gaps and overlaps that are needed to be resolved by the prospective vendor solution.

The technology assessment should include an inventory of your bank's current systems and hardware, analysis of operational statistics, and a review of overall costs. Additionally, you should assess employees' and management's overall satisfaction with current technology systems. This process will produce gaps between what your current technology can deliver and what you need to realize your strategic goals.

4

Prepare a Critical Business Needs Analysis—

What is important to your bank?

This step defines those issues and needs that are specific to you. For example, if your bank is a large commercial real estate lender, focus must be given to those needs. Remember, not all core systems are alike. Each system will have its own unique features and functionality, so focus on what's important to your bank. This will guide the rest of your decision-making.

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Select a Preliminary Set of Vendors and Solutions—

What are your needs?

Choosing the right vendor for your bank's specific technology needs is a matchmaking process — not just a search for the best technology product, but for the best service provider to deliver it. As in any partnership, there are key issues to consider.

- Do the management philosophies of the bank and vendor mesh?
- Will the vendor still be in this particular business five years from now?

Be sure to consider financial health and stability of the vendor, installation and integration support, training, maintenance agreements, upgrade and, perhaps most important, enhancement policies, customer service reputation and the obvious cost considerations.

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Prepare a Comprehensive Request for Proposal (RFP)—

How do you start the evaluation process?

Once potential vendors have been identified, request detailed proposals from each. The RFP doesn't have to be a 500-page document identifying all the possible features and functions your bank is looking for. Instead, the document should provide sufficient information to allow the vendor evaluation team to assess each vendor's ability to meet your bank's critical business needs. A more detailed system feature and function analysis can be sent later to those vendors on the "short list." In some cases, the quality of service and service level agreement may be more important to your bank than feature/functions. The RFP needs to be focused on the high priority criteria as defined in Step 4 and has to be related to the bank's overall strategic direction.

Evaluate the Vendor Responses to the RFP—

Which vendors meet your bank's needs?

In response to the RFP, each vendor should demonstrate how they meet your bank's needs and why they are your best solution. Distribute the RFP responses among the vendor evaluation team and have each member prepare a written evaluation. Have them look for inconsistencies in the vendor's proposals and weaknesses in their abilities to perform to your bank's expectations. While price is always a consideration, the level of service, training, and integration with existing technology are crucial and potentially more important. It is also critically important to document the evaluation criteria and the evaluation decisions being made as part of the bank's vendor management program.

After studying the proposals, narrow the list of potential vendors to a short list of final candidates, no more than two or three. From this point forward, any vendors not on the short list should be excluded from further consideration.

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Request Demonstrations and Visit References—

Have you seen the system in action?

Request that each of the vendors on the short list make detailed demonstrations of their systems, at your bank's site if possible. All vendors should be prepared to discuss their proposals in detail. Also, request that each vendor arrange for members of the vendor evaluation team to visit current users of their system.

Experienced technology purchasers go into these demonstrations, discussions, and on-site reference visits armed with information. Prepare questions beforehand and make sure the vendors' sales representatives and current users of the system provide satisfactory answers. Besides senior management, it is often helpful for the employee end users of the technology to attend vendor presentations and be given the opportunity to ask questions. Their input is usually invaluable.

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Request More Detailed System Feature and Function Information—

Do you know all the features and functions?

Now that you've seen the demonstrations and heard the sales pitches, it's time to carefully evaluate each of the remaining technology vendors on the short list. To aid the vendor evaluation team in this process, it is usually helpful to have each of these vendors prepare a detailed analysis of the various features and functions of their respective systems. This information can then be used by the vendor evaluation team, in conjunction with information from sales presentations, demonstrations, and reference checks, to compare systems.

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Selecting the Finalist—

Do you feel confident with your selection?

Once you have seen the system thoroughly demonstrated, checked the vendors' references, compared the functionality of the competing systems, and obtained their best prices, select the desired vendor and system that will become your Strategic Technology Partner. A number of criteria are considered in making this decision, including the:

- Vendor's ability to meet your bank's critical business needs.
- System capabilities and capacity.
- System fees, implementation and conversion expenses, and hardware costs.
- Implementation assistance and management.
- Financial viability of the vendor.

Negotiating the Contract—

How do you finalize the agreement?

Once you make your choice, the pricing, service level agreement (SLA) and contract terms are negotiated. In the process of finalizing the contract, be sure to consider such issues as: payment of fees, costs and expenses, conversion and implementation assistance, training prior to and following implementation, system enhancements, and notification of upgrades and changes. In particular, carefully review the contractual warranties, make sure that the vendor is obligated to support the bank's de-conversion, and check to see that service level agreements are included as part of the vendor's contractual commitment.

We assist banks of all sizes with this process every day and we have the experience, methods and tools that can help ensure that your bank selects the technology and vendors that will best support your bank's vision and goals. We know how difficult this process can be — even when you know the right questions to ask. For more information at no obligation call **800-477-1772** or email **tech@smslp.com**.

The Cost of a Wrong Decision

As technology costs increase, so does the cost of making a wrong decision. The price isn't simply money, but time and frustration, wasted training and maintenance fees, and forgone efficiencies and opportunities. Most of all, you can find your bank having to work around the wrong system and vendor for the next five to ten years.

Let the name you trust help you select the right vendor for your bank.

If this process sounds like a lot of work, it is. You don't have to do it alone. The expert team at Sheshunoff Management Services helps banks like yours reach their strategic goals through a rigorous vendor selection process every day. We can help you through every step in making better-informed decisions, so you make the right choice and pay the best price. We have the information you need on systems and pricing so you can be sure we know what we're doing as we insure that your selection will meet your bank's needs.

Whether your vendor contract is due to renew soon or you want to get a head start on the selection process, we can help. Give us a call **1-800-477-1772** or email **tech@smslp.com**.



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