

Critical Risk Assessment: Exploring the
Choice Between Established Vendors
and their Smaller Counterparts

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Executive Summary

In a highly-regulated, viability-critical environment, enterprise software is more than a tool to support necessary and mandatory financial business functionality. It is an investment. Organizations are dependent upon the business-critical enterprise software of the vendors with which they partner. As a result, the software provider must offer financial viability, defined processes, industry expertise, best practices, and sufficient development resources.

Organizations committed to supporting successful, fluid, financial operations cannot afford to gamble their long-term viability by partnering with a vendor committed to short-term development. But what constitutes short-term development and when, if ever, does the maverick offer the client an opportunity an established vendor may overlook? And what are the risks of each to the client?

Experienced buying groups understand that seemingly innocuous decisions, such as selecting vendors based largely on personalities or relationships, can trigger trouble ahead. Buying teams that are less familiar with the vendor selection process can protect their company's interest by asking four key questions, included on the following pages. Armed with these questions and the information contained in this white paper, your buying team will be fully equipped to effectively perform critical risk assessment as you explore the solutions developed, implemented and supported by established vendors and those provided by smaller, riskier start-up companies.

Different vendors and different solutions appeal to organizations with varying appetites for risk and reliability. This document will help you determine which is best for your organization considering the costs, risks, and benefits of each.

Overview

Cutting edge organizations, with forward-thinking executives, may find themselves intrigued by the tempting promises from start-ups offering potentially groundbreaking technologies. Unfortunately, the last surge in start-ups was the Internet boom of the late 1990s, many of which fizzled or in some cases popped soon after Y2K. As a hopeful, capitalist country, Americans are eager for stories of tiny companies that “made it big” through a combination of innovative technologies mixed with blood, sweat and tears – or even just some good old-fashioned hard work and dedication. It’s a wonderful dream worth believing in, but a risky gamble if the solution potentially increases their clients’ corporate risk. Buying teams seeking sophisticated support for business-critical functionality have the right and obligation to partner with a vendor that can offer them a high level of proven expertise and experience.

Asking the Right Questions

When it comes to implementation and maintenance, what seems like a great opportunity can end up costing more than first anticipated. Asking the right questions up front can ensure that a buying team is considering all of their options before committing long-term financial and human resources.

5 Key Partnership Factors to Consider

1. Financial Viability
2. Sufficient Infrastructure
3. Certified Processes (e.g., SAS70)
4. Demonstrated Expertise
5. Development Resources

The Customer is the Fundamental Core of the Business

Satisfied customers cite two advantages that add measurable value to their account reconciliation program, specifically those advantages related to the product and those related to the vendor. In every case, the satisfied customer understands that their needs drive the fundamental core of the vendor’s business.

Product-driven Advantages

Pioneering technologies, especially those offered by start-ups, developed with the adrenaline rush of a “work around” and delivered in a matter of weeks, can be very exciting – but they can also be dangerous. What happens when the function is incompatible with the infrastructure, or when the small company adds a few more clients and rather than getting a third of their time and resources, the client suddenly receives reduced service and priority? What happens if they do not increase their client base, are spread too thin, and are ultimately forced to close their doors?

Partnership-driven Advantages

The three most significant partnership advantages provided by an established provider include financial security of the firm, proven operational processes, and a stable and trusted infrastructure that includes sufficient resources to nourish a team of experienced product development, quality assurance, implementation, customer support, client service, and sales and marketing teams.

Historical Review

Risk is an element that factors into nearly every business decision and practice; unnecessary risk doesn't have to. When businesses first began to formally develop account reconciliation programs, the only firms fortunate enough to have these systems were large multinationals and/or others with the internal resources to develop proprietary programs. And since these programs were created to replace manual processes that required enormous amounts of human resources, virtually any automated benefit they created was considered a success.

Over the past decade, corporations have moved increasingly away from developing proprietary in-house systems; they realize that their dollars are better spent partnering with vendors that specialize in the technology they need.

In some ways, start-up firms are much like in-house IT teams. They develop for a handful of clients seeking a limited number of very specific solutions. Generally a start-up begins with an idea and some code. Since human resources are limited, the founder becomes adept at wearing multiple hats: development, implementation, sales, etc. A combination of reduced overhead, a deep hunger for business and an entrepreneurial spirit can be a recipe for success; however, at some point the allure of innovation may not be enough to counterbalance the risk. If the stakes to the customer weren't so high, the allure of innovative, unproven, unsupported technologies could offer a renegade, adventuresome, and perhaps even less expensive alternative to a proven, established solution.

Unfortunately, when business-critical functionality is at stake, established organizations cannot afford to throw caution to the wind. For companies whose account reconciliation program is integral to their back-office functionality, the risks far outweigh the opportunity.

The situation of start-ups is precarious. Businesses, as a whole, are caught between a desire for new technology and an understandable need for security. That doesn't mean prudent, established businesses cannot benefit from groundbreaking technology, but to maintain shareholder confidence, they need partner with a vendor who understands the risks involved and has procedures in place to circumvent a reckless and perhaps costly decision.

Start-ups that might have flourished in the 1990s find themselves in a difficult business environment today. The major corporations and organizations that they are targeting are in an entirely different business environment.

Historical Review Continued

The combination of a decreased funding market in terms of venture capital, teamed with increasing regulatory emphasis on risk and compliance policies, has resulted in a major shift with regard to accepted business practices and standards, and with that an increase in organizations seeking viable solutions from established vendors.

Organizations that once operated on a more disparate basis with more defined walls between departments, a higher ratio of human resources to technology, and a significantly reduced concern about corporate risk, now require seamless enterprise solutions backed by vendors that serve as business partners to their clients. The benefits of this are evident to employees, shareholders and Wall Street.

Smaller companies do not have the luxury of having all of their processes and structures defined. Often their technology is developed in response to a specific client's needs and their "release cycle" is intermittent depending on what else is going on. Small Companies often cannot sustain a high level of responsiveness to a business' needs. Clients who work with established firms can expect:

Financial Viability

As a prospective buyer it's important to partner with a vendor that will be in business for the long-term, supporting your investment for the life of the solution. Established vendors have the resources necessary to provide confidence through verified, accurate, and audited financial statements.

Defined Processes

Well-defined processes for development, quality assurance testing, implementation, client support, customer service, and sales and marketing ensure customers that shortcuts will not be taken in response to an unforeseen event.

Industry Profile

Every customer benefits from what an established firm invests in R&D. As firms develop a reputation for reliability and service, they are considered for larger, more complex and higher profile deals. As momentum builds, satisfied customers recommend solutions and services to their peers. The difference becomes apparent.

Best Practices

In an environment where every move forward builds on the core application – that translates into value. Best practices come from years of experience helping clients manage true business risk across their enterprise – giving them the opportunity to focus on high-value business issues for maximum return on investment.

Development Resources

Development resources allow companies to plan the scope of the application more strategically, to evaluate how the pieces fit together, rather than frantically writing code, [fire fighting], due to limited resources. With momentum driving the development, teams of dedicated programmers and specialized product managers can drive meaningful solutions.

Vendor Viability: Creating an Environment for Success

For good reason, the account reconciliation market is a segment that's ruled by risk adversity. Buying teams in this segment need assurance that the technology has been proven to minimize risk, doesn't offer any unexpected surprises, and that the vendor they choose to partner with will survive.

Claims of financial viability are more readily accepted from companies:

- With a number of dedicated employees working in each department
- With accurate and audited financial statements required by SEC regulations
- With verifiable assets, which provide prospective buyers with documented proof that the company is as stable as it portrays itself to be

With financial viability comes a sound operational and infrastructure pledge. Buying teams willing to do a small amount of due diligence can assess the vendor's operational policies and look for the following:

- Employee size
- How their business plan is reflected in their products and services
- What material risks they cite
- Other key operational fundamentals

Buying teams can know – with certainty – that there is no misrepresentation. The infrastructure created by a vendor is also indicative of their overall viability. Sufficient infrastructure funding is evident throughout all aspects of the company, including: product development, quality assurance, support, and sales and marketing.

What does all of this have to do with the development of new technologies? Everything. Contrast this to smaller, immature firms that start out by servicing four or five primary clients. Several things can dramatically and directly impact the service and quality of solutions their clients receive.

1. What if they lose a client and with it 20% of their revenue?
2. What if they win a few new clients and suddenly find themselves spread too thin to provide the same level of responsiveness they originally did?
3. What if the customized code written for each client suddenly becomes too expensive to maintain going forward?
4. What if a turnover in staff results in a new set of personalities who are less accommodating or knowledgeable about a certain client's business needs – and there are no best practices or defined processes to refer back to?
5. And worst of all, what happens if they unexpectedly go out of business?

Bringing New Technology to the Marketplace

There will be times when a start-up or small vendor will create a technology that dramatically and dynamically changes the market segment. If a start-up's technology is truly innovative and useful, the technology will survive.

One of four things will happen:

1. The company will succeed without help. This is rare and requires a fortunate convergence of market factors and dedicated, patient investors.
2. The start-up establishes a best-of-breed product that is sold by a trusted brand or entity. This can take awhile. Trusted brand vendors are known to be cautious with regard to partnerships.
3. An established vendor acquires the company and the technology.
4. The business fails. Even if the intellectual property is sold off, the client has lost their investment in the start-up's solution.

In any case, because the result is the same – the technology will survive and become available through proven and trusted channels – it's in an organization's best interest to wait until it is available via an established, trusted provider.

Vendors with the funds to support their existing business, and also invest in future technologies, are able to manage product support across a portfolio of products. Happy customers, adequately supported, are most likely to keep their accounts current. Invoices are sent out on time, receivables are posted on time, and auditors can verify processes and financials.

Embracing New Technology

Established vendors are the best resource for new technology. They have the funding and the processes to ensure the accuracy, reliability, and safety of a new technology.

The solution may take longer to get to the client, but that's because established firms do not promise new technology in a matter of weeks. When it is delivered, it will have been designed and tested to meet the client's needs. The only time this level of quality assurance would be irrelevant would be if a client were parallel testing multiple systems/solutions with absolutely no attachment to any outcome. For successful corporations, outcomes are relevant.

Four Questions That Can Help You Select the Best Vendor Partnership

The answers to these four questions can help a buying team make a decision in regard to selecting an established vendor or a smaller, start-up organization.

With what kind of company do you want to work?

Are you and your shareholders more comfortable partnering with an established company with a dependable market profile? Do you want something that is fast, easy and inefficient, or something that takes a little bit longer but supports a broad level of functionality, is more efficient, and is scalable for growth?

Are they in it for the long haul?

Can they share with you a contingency plan for supporting your investment down the road? How important is it that they provide experience and a history?

Do they have the resources to continuously improve the product?

Do they have the infrastructure and processes in place to keep their promises to you? Do they seem capable of delivering on the claims being made during the sales cycle?

Can / will they be there for you in your time of crisis?

Is the company viable? Do they have the required expertise? Do they have the resources to continue to invest in necessary enhancements? From a pricing and speed standpoint, does it make sense to get the level of sophistication you would expect in a matter of weeks, and will they be equally as responsive a year or two down the road when you require critical development? For hosted services, do they provide adequate security and back-up?

In Conclusion

As increased focus continues to be on corporate risk, buying teams are evaluating their vendor relationships more closely. Organizations committed to supporting successful, fluid, financial operations are almost exclusively partnering with vendors that can provide their enterprise with a reliable standard of financial viability, defined processes, industry profile, best practices, and development resources. Companies are not willing to gamble their long-term viability by partnering with a vendor committed to short-term development.

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Trintech's AssureNET GL was designed to accommodate complex corporate reconciliation needs with technology that includes customized template-building to meet the specific needs of each client.

- Through the configuration of account-specific reconciliation fields and determining which fields are optional and which are mandatory, firms can migrate away from over-reliance on the review process (a detective control) and instead rely on preventive controls over the format and content of reconciliations. This reduces time spent reviewing, rejecting, and re-reviewing reconciliations as the reconciliation is guaranteed to be at a certain level of completion before it is eligible for submission. Time spent training new staff may decrease. Templates are tailored to each class of account, and as a result are more intuitive to the reconciler.
- Through the definition of account-specific reconciliation fields, exception reporting may be configured to report on values in these fields, so that you can identify conditions of risk. Because exception reporting is a key element of risk mitigation programs, the importance of this feature can't be minimized.
- As quality control issues are identified, firms can mitigate the risk of future issues by adapting templates to fix the problems. Trintech's development team understands the importance of including this capability entirely within the clients' control.

To learn more about AssureNet or other Trintech solutions, please visit www.trintech.com.