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WHITE PAPER

SHOULD YOU BUILD OR BUY SOFTWARE?

4 QUESTIONS FINANCIAL SERVICES FIRMS SHOULD ASK WHEN MAKING THE BUILD VS. BUY DECISION

Your financial services firm is growing. You need new software to deliver the full value of your services, compete in a tough marketplace, and meet your clients' increasing expectations. Perhaps that involves customer relationship management (CRM), portfolio management, or document/activity management. Whatever your software needs are, the decision you now face is: do you build or do you buy?

Whether you should build software or buy it cannot be answered categorically one way or the other. You must weigh the operational and economic considerations carefully to determine which route is best for your business. Here are four key questions that will help you decide how to move forward.

1. DOES BUILDING SOFTWARE INTERNALLY HELP YOU CREATE A COMPETITIVE ADVANTAGE?

The very first question you should ask does not refer to cost or time or staff. All those are secondary. The primary consideration is business-related: "Does building software internally help you create a competitive advantage?"

> THE GOALS, OBJECTIVES, MISSION, AND VISION OF YOUR BUSINESS SHOULD BE YOUR LODESTAR FOR MAKING DECISIONS.

The goals, objectives, mission, and vision of your business should be your lodestar for making decisions. For example, if you have proprietary analytics or algorithms in place that would drive the functionality of a software program, it makes sense to build the software internally. The analytics or algorithms embody your competitive advantage in the marketplace. You want to leverage them to their maximum potential. In such a case, buying software that uses standard analytics or algorithms would dilute your differentiation from the competition.

Conversely, suppose you need general ledger software. Having general ledger software isn't a differentiator in the marketplace. Such a program performs a certain set of standardized tasks. No matter how much money or staff you have available, it simply doesn't make sense from a business standpoint to code your own general ledger software: it is not to your competitive advantage to do so. Buy it, and move on.

Many other programs are similar, such as CRM modules or research and reporting software. Different products may vary in the specific set of features and benefits they offer, but the core remains the same. If your financial services firm is focused on managing investments for your clients, don't waste valuable resources developing such software from scratch. You want to focus squarely on the things that will give you a competitive advantage in the marketplace. Diverting your attention and resources to build software that you can buy readily is self-defeating.

At this point, you might be asking, "But, I know my business best. Doesn't it make sense to build the software I need?" If that software is literally founded on proprietary methodologies, then, yes. But most software needs don't fall into that category. Activities such as accounting, performance, and valuation are the same at their

core for every financial services firm. There is no reason to re-invent the wheel for supporting functions such as these. Instead, take advantage of a proven solution. Certainly, you might need to engage in some configuration of out-of-the-box software to make the software a perfect fit for your business, but the right long-term partner will be able to match your requirements.

2. WHAT IS YOUR DESIRED COST AND SPEED TO MARKET?

Time and money are always major considerations for any business decision. When determining whether to build or to buy software, be sure to weigh:

WHEN DEVELOPING SOFTWARE, LOOK AT YOUR DESIRED TIMELINE — THEN, DOUBLE IT.

- **Opportunity costs.** Every hour spent working on a project that is not related to a critical business need is an hour of opportunity lost. So opportunity cost should be viewed not in terms of "Can I do this?" but "Should I do this?" Finite resources must be prioritized carefully in terms of business goals and objectives.
- **Maintenance costs**. The biggest expense for software development is not typically the build. It is the ongoing maintenance. Are you willing – and able – to make software maintenance, including security considerations, part of your standard budget?
- **Cost transparency.** Development and maintenance costs are unknown quantities when building software. Development can take longer than planned. Maintenance might place unexpected demands on cash. With a vendor, however, costs are transparent and fixed.
- **Development timelines.** If you are thinking about developing software, look at your desired timeline – then, double it to figure out what reality will probably look like. Even with agile DevOps methodologies, software development is a time-consuming business. Legal reviews can eat up weeks and even months, multiple iterations take time to assess and revise, and competing projects of higher priority can completely derail planned project schedules. Deploying purchased software, on the other hand, can be done on a predictable and swift timetable.

Consider the challenge of raising $100 million in investment capital. You could spend an unspecified amount of money and six months of time to develop software in-house and then apply yourself to raising the $100 million. Or, you could purchase software now for a set amount of money and begin raising the capital within a few days or a few weeks at most. Gaining a six-month head start in a competitive marketplace is no small matter, and can have a tremendous effect on your business growth.

3. DO YOU HAVE THE STAFF AND EXPERTISE TO BUILD AND MAINTAIN SOFTWARE?

If you have hundreds of programmers who code every day, it makes sense to build the software you need (again, with the caveat listed in the first consideration above: if it is to your competitive advantage to do so). However, most financial services firms do not have huge technology departments. If that is the case, you need to evaluate your IT staff and the wisdom of building vs. buying software based on several additional considerations:

BUILDING SOFTWARE IS ONE THING — MAINTAINING IT IS SOMETHING ELSE ENTIRELY.

Do your developers have the institutional knowledge necessary to build the software?

Financial services is a complex and strictly-regulated business. General-use developers may be highly skilled, but, if they lack institutional knowledge about the industry, they may not be able to deliver software with the full set of features and benefits you need. Purchasing software from a vendor who is an expert in the financial services industry will ensure that critical institutional knowledge is baked into the solution.

Are your programmers familiar with open-source licensure rules?

Open-source code can be a huge problem. If developers get the wrong licensure for open-source code, your software might have to be made publicly available – including the “secret sauce” you built into the programming. Vendors vet all code through legal review to ensure that proprietary software remains proprietary.

Can your developers incorporate user experience (UX) and user interface (UI) design?

It is ineffective to have software that does what you want if nobody can use it easily. Unfortunately, some programmers are skilled with code but do not understand how to create a positive UX/UI design. The result is intense user frustration, resulting in low engagement and poor outcomes. Technical knowledge is critical, but the end user cannot be left out of the equation. Vendors have both technical and UX/UI expertise, and give you the opportunity to test demos to ensure that your users will be comfortable with the portal and program.

Do you have the resources not just to build, but to maintain?

Building software is one thing – maintaining it is something else entirely. Software upgrade cycles are faster than ever before. Every few years, code needs to be essentially re-written to keep up with evolving business requirements and technology innovations. Backups need to be done. Patches need to be applied – and tested to be sure they don’t cause problems for interrelated applications.

Purchasing software offloads the demands of maintenance to the vendor. The vendor assumes responsibility for all updates, upgrades, patches, backups, compliance, and troubleshooting so you can focus on your core business.

Could you end up with unacceptable key-person risk?

If you have a very small IT department, software development might be one person's responsibility. In such a case, your business could be seriously impacted if that individual were to retire or resign. Using a vendor ensures continuity so that your business can move forward without fear of being held hostage to the knowledge of a single person.

4. CAN YOU INCORPORATE AND MAINTAIN ROBUST, COMPLIANT SECURITY?

One area of expertise needs to be called out for special consideration: does your internal staff have the knowledge and expertise necessary to incorporate and maintain robust, compliant security for any software that is built?

> ARE YOU WILLING TO ASSUME THE LIABILITY THAT GOES ALONG WITH SECURITY RESPONSIBILITIES?

Financial services is one of the most heavily-regulated industries in the world, setting the bar for security very high. A data breach can put your clients' financial and personal information at risk, and result in severe fines and penalties. Are you willing to assume the liability that goes along with security responsibilities?

If you have dedicated compliance and security personnel as part of your infrastructure, including an information security officer, you may be willing to assume both the responsibilities and the risks of maintaining security. But if security and compliance are not among your core competencies, it is better not to take on that burden. Security is simply too complicated, and it is getting more so every day as cyberthreats become increasingly sophisticated.

If you purchase software, however, your vendor should hold security and compliance as a core competency. You can verify that the vendor is dedicated to researching compliance and privacy laws, staying abreast of new cyberthreats, and monitoring the network for intrusions, rather than building these capabilities yourself.

"IF I BUILD IT, I WILL GET JUST WHAT I NEED." OR, WILL YOU?

Businesses may decide to build software because "If we buy something, we'll only use 20 percent of the functionality — it has all these bells and whistles we don't need. If we build it, it'll include just what we need."

So, they build it. Only afterward do they discover that what is needed today isn't what is needed tomorrow. And that the person down the hall needs a feature that wasn't included.

In time, more and more functionality is added to meet evolving business needs. Suddenly, it becomes clear that they have reinvented what they could have purchased outright — for a lot less time and a lot less money.

When examining software options on the market, realize that the bells and whistles are there for a reason. You may not need them today, but you will likely be glad you have them tomorrow.

Given the choice between trusting in security that is someone's job 24/7 to maintain, or relying on security that is checked on a part-time basis by an internal IT member with multiple other jobs on his or her plate, which would you pick?

BUILD OR BUY: CHOOSING THE BEST ROUTE

As a financial services firm, you need an array of software to keep your business running smoothly. From portfolio management to document tracking to advanced analytics, you are faced with the question: build or buy?

> PURCHASING SOFTWARE ENSURES THAT CRITICAL INSTITUTIONAL KNOWLEDGE IS BAKED INTO THE SOLUTION.

The questions presented here can help you weigh the complex pros and cons associated with this decision. But if it had to be boiled down to just one point, it is this: if building software is outside your core competency, buying is the wiser route. Buying critical software allows you to focus on strengthening your competitive advantage in the marketplace, enables your IT staff to concentrate on innovative and value-added projects, ensures leading-edge security, and streamlines costs and speed to market. That is how to create a "win" for your financial services firm.

IN SUMMARY:

When considering whether to build or to buy software for your financial services firm, ask yourself:

1. Would it be to your **competitive advantage** to build the software internally?
2. What is your desired cost and **speed to market?**
3. Do you have the **staff and expertise** to build and maintain software?
4. Can you incorporate and **maintain robust, compliant security?**

ABOUT BACKSTOP SOLUTIONS

Because every minute matters, Backstop's mission is to help the institutional investment industry use time to its fullest potential. We develop technology to simplify and streamline otherwise time-consuming tasks and processes, enabling our clients to quickly and easily access, share, and manage the knowledge that's critical to their day-to-day business success. Backstop provides its industry-leading cloud-based productivity suite to investment consultants, pensions, funds of funds, family offices, endowments, foundations, private equity, hedge funds, and real estate investment firms.

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