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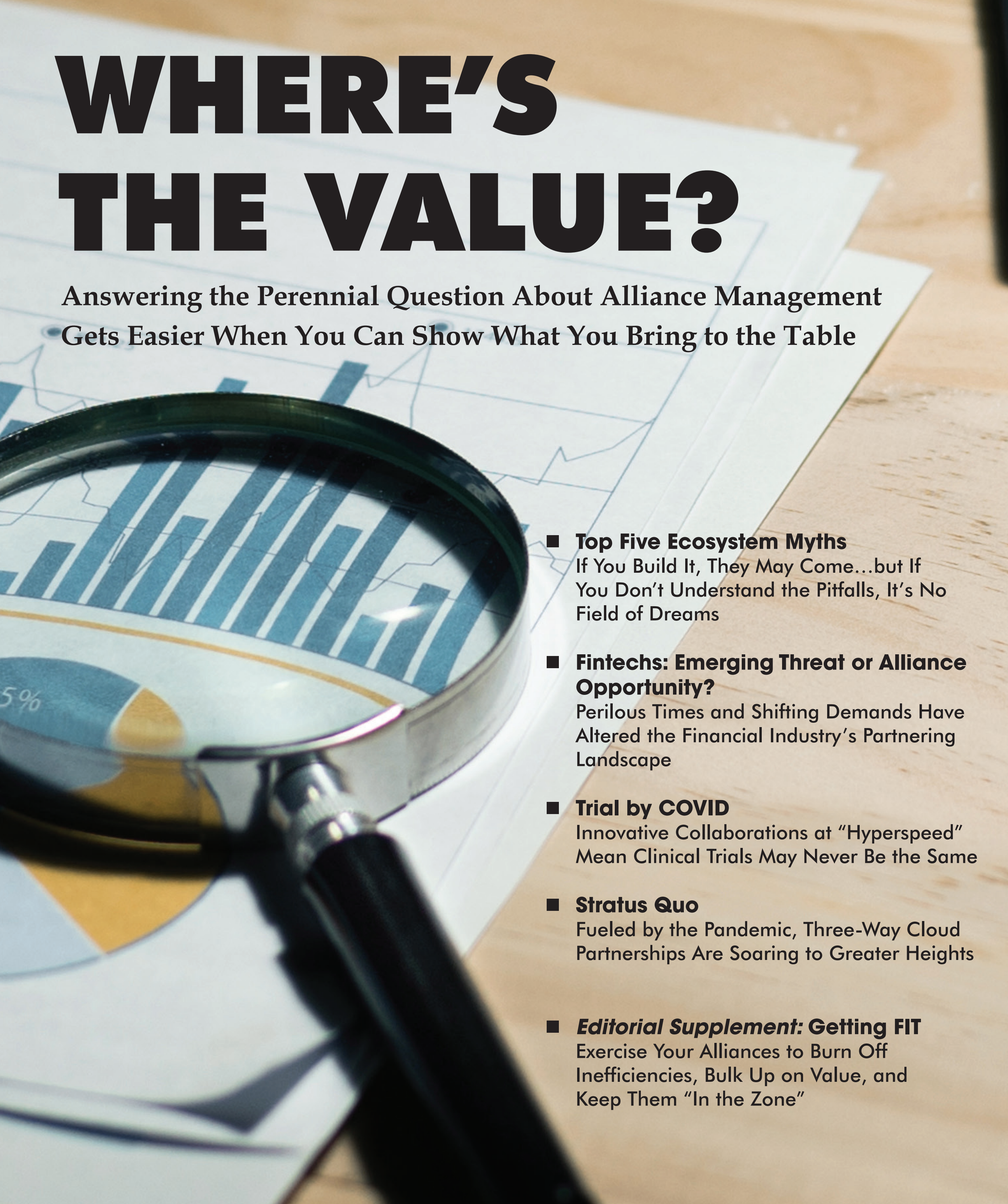

WHERE'S THE VALUE?

Answering the Perennial Question About Alliance Management Gets Easier When You Can Show What You Bring to the Table

- **Top Five Ecosystem Myths**
  If You Build It, They May Come…but If You Don't Understand the Pitfalls, It's No Field of Dreams

- **Fintechs: Emerging Threat or Alliance Opportunity?**
  Perilous Times and Shifting Demands Have Altered the Financial Industry's Partnering Landscape

- **Trial by COVID**
  Innovative Collaborations at "Hyperspeed" Mean Clinical Trials May Never Be the Same

- **Stratus Quo**
  Fueled by the Pandemic, Three-Way Cloud Partnerships Are Soaring to Greater Heights

- ***Editorial Supplement:* Getting FIT**
  Exercise Your Alliances to Burn Off Inefficiencies, Bulk Up on Value, and Keep Them "In the Zone"

Fintechs:
Industry Threat or Alliance Opportunity?

Responding to Business and Consumer Demand, Big Financial Institutions and Smaller Fintech Startups Are Coming Together—and Changing the Industry Landscape

By Dan Caplinger

It's a truism of strategic alliances that companies can often benefit from working together even when many would see them as rivals. Ideally, each party can get the best of both worlds, gaining an advantage from their partner while retaining their own leadership edge.

Yet some industries seem friendlier to alliance opportunities than others. Recently there's been growing tension in the financial industry, as disruptive startups take aim at some of the oldest, most well-established companies in the business world.

Many of the financial institutions that dominate the industry have long and illustrious histories that date back a century or more. The top banks, insurance companies, and other large, legacy financial services providers have played a key role in the march of global economic progress.

Meanwhile, as in nearly every industry, the rapid advance of technology has dramatically accelerated the pace of innovation in the financial sector. Some of those innovations challenge business models that have long been the core growth engines of the most successful financial institutions.

Banking with the "Enemy"

Faced with what appears to be a serious threat to their continued leadership, financial institutions might reasonably choose to treat small, upstart fintech disruptors as the "enemy." But the landscape here is actually far more nuanced, according to **Sophie Lismonde**, CA-AM, cofounder and managing partner of alliance management consulting firm Consensa in Belgium.

"Fintechs don't try to supplant big financial companies. They just aim to offer new services."

In Lismonde's view, not only can big banks and insurance companies preserve and retain their leadership advantage by partnering with fintechs, but they can also make cutting-edge technology available to their clients, who have increasingly demanded the tools to make business easier. In this model, she said, "Fintechs don't try to supplant big financial companies. They just aim to offer new services."

In fact, market dynamics currently favor the "partner" route over the "build" and "buy" options.

Reality Bites

Simply put, the pace of innovation in fintech is just too fast to allow the big banks, brokerages, and insurance companies to develop solutions in-house. Although the prospect of building their own systems gives them complete control, the net result of these development efforts often proves disappointing.

"When the market is moving quickly and/or the company is stretched too far from its core capabilities, progress is too slow," said **Jonathan Hughes**, partner at global consulting firm Vantage Partners.

"For some companies, reality is a hard teacher. Eventually the lessons sink in."

Given their vast resources, big institutions may overestimate their ability to make change on the technological front. "For some companies, reality is a hard teacher," Hughes said. "Eventually the lessons sink in."

Meanwhile, it's tougher than ever to just buy a fintech outright. "Unless you catch them very early," Hughes noted, "acquisition is costly." Fintechs also have considerable funding sources available to them, allowing them to pursue their own growth efforts while retaining their independence.

Digital Disruptions in the Financial Landscape

Digital transformation, customer demands, and a dizzying array of new products and business models are necessitating the alliance professional's eye for creating, continually reevaluating, and refreshing the alliance ecosystem in the financial space.

Traditional banks were originally at the forefront of digital transformations more than 20 years ago. "Banks first went digital," Lismonde said, "because they needed quickness. They were first-adopters of technology to speed up their transactional businesses." The result was replacing labor-intensive, automated processes with digital ones.

"Customer service is a fintech issue. It's a new way to attract younger customers."

However, today fintech companies have already changed the way people think about their finances by using technology to make financial processes and transactions simpler, more efficient, and more profitable. Meanwhile, bank and insurance company customers are also demanding improvements in technology.

As Lismonde describes it, "Customer service is a fintech issue. It's a new way to attract younger customers." In particular, they want the convenience and ease of apps available on smartphones and mobile devices to get business done wherever they are and whenever they want.

No Bricks, No Mortar, No Money—No Problem

The scope of these disruptive technologies is even broader than that. Online banking platforms led to the creation of internet-only banking institutions, some of which have no brick-and-mortar bank locations at all. Mobile banking takes that one step further, giving customers the power to do transactions from their smartphones. Similarly, contactless payment technology allows consumers to pay bills or make purchases without taking out physical credit or debit cards.

Other fintech companies aim to offer high-tech alternatives that bypass traditional business practices entirely. Person-to-person payment apps avoid the need to exchange cash or checks, while peer-to-peer personal lending platforms allow people to give loans directly to borrowers without a lending intermediary. Stock trading apps and robo-advisors have turned the traditional stock brokerage business model on its head.

On the outer reaches of fintech, even the definition of money itself is changing. Blockchain technology and cryptocurrencies have become a trillion-dollar alternative to dollars, euros, yen, and other global currencies.

Alliance managers have an overwhelming number of ingredients to select from in creating recipes for new financial services offerings, and it is up to them to put their business development hats on and find partners that offer a strategic, cultural, product development, and operational fit.

Fintech Partnerships in Action: The Example of Finacle

The case study of Infosys product subsidiary EdgeVerve Systems and the Finacle digital banking solution suite provides a good real-world example of what alliance leaders have to negotiate to convene the right partners and manufacture cutting-edge joint solutions. **Venkat Gosavi**, senior vice president and global head of sales at Infosys Finacle, said that alliances play pivotal roles in several areas of its operations, which cover financial institutions in more than 100 countries, serving more than 1 billion consumers worldwide.

Finacle's partnerships fall into three broad categories. Strategic relationships with big tech companies and cloud computing providers further co-innovation and product strategy. Finacle also looks for complementary solutions from fintechs to augment its platform's functionality. Finally, transformation and implementation partners include top consulting firms and others that support Finacle clients' digital transformation efforts and provide services such as implementation, customization, integration, and program management.

These alliances are a top priority for Finacle because they play an integral role in its overall growth strategy. By actively engaging with many different alliance partners, Finacle ensures that it can achieve scale and differentiation in its market.

Still, Gosavi noted that it's important not to have *too* many strategic partners, which isn't sustainable. "Focusing on top partners is critical," he said. "This ensures alignment in the organization to support and invest in strategic partnerships." Also, strong governance processes and an aligned organizational culture make it easier to sustain and build on alliances.

"The growing expectation from consumers and businesses for a better experience is fostering and accelerating collaborations."

Internally, Finacle has teams of regional alliance managers with expertise in technology architecture, infrastructure, and cloud computing as well as systems integration, consulting, and delivery. These managers handle the full ecosystem of strategic relationships covering nearly every aspect of Finacle's business, and they constantly push the boundaries of their collaborations to bring more value to Finacle's clients, according to Gosavi.

The motivation for all this, he explained, is the customer. "The growing expectation from consumers and businesses for a better experience is fostering and accelerating collaborations," he said. Even though banks are trying to build their own in-house tech capabilities, they're still interested in working closely with fintechs to speed up innovation.

Moreover, financial institutions no longer see the main threat as coming from fintechs. In Gosavi's view, "The threat for banks is coming from their more innovative peers, not the fintechs. As such, we have seen most financial institutions open their doors to explore, experiment, and embrace the fintech ecosystem."

Betting on a Model—but Whose?

Jessica Wadd, partner at Vantage Partners, noted that for big financial firms looking out at the fintech landscape, the sheer breadth of offerings is a challenge in itself.

"Right now, the financial services market is seeing rapid innovation, with many companies approaching problems in very different ways," she said. For a big bank or insurance company, "It is hard to determine which solutions will gain traction, and a few years of rapid growth are no guarantee of future success." That makes an acquisition strategy risky, because if you buy the wrong company, you're no better off than when you started.

Lismonde added that the value proposition from embracing technology has changed for banks, insurance companies, and

other financial institutions as well. Collecting data on customers and broader populations is critical, especially in the insurance industry, where effective risk management can hinge on knowing as much as possible about policyholders.

"Financial companies have data about the business that customers do directly with them, but they don't have the broader background information that can be useful in making business decisions," she said.

"Many fintechs want to partner with larger, established firms that have ready access to customers. But their partners may not move quickly enough or embrace new ways of engaging customers."

Meanwhile, to compete against each other and stand out from the crowd, fintech alliance managers also have to think strategically. They will see opportunity in prospective big-bank customer bases and obvious product gaps that need filling. However, they'd better prepare for a crash course in bridging disparate corporate cultures.

"Many fintechs want to partner with larger, established firms that have ready access to customers," Wadd explained. "At the same time, however, their partners will not move quickly enough or embrace new ways of engaging customers and thus stifle the fintech's growth."

Small upstarts are used to acting quickly and decisively, making the pace of large bureaucracies seem glacial by comparison. Fintechs may also worry about bad faith among prospective partners, according to Wadd. She cited situations in which fintech clients may be reluctant to share proprietary information with a big financial institution due to the threat that the behemoth might build its own parallel solution.

David, Goliath, and the Dominos

Yes, smaller fintechs and large financial institutions will have to bridge the familiar big-small partnership dynamics—big banks, insurance companies, and investment houses come with red tape–lined internal processes and are beholden to heavy layers of regulation that fintechs typically aren't burdened with.

However, the perception of a David and Goliath relationship between big banks and insurance companies and small fintech startups isn't quite accurate, according to Lismonde and others, and the soil for potential partnerships is actually quite fertile. More often, fintech companies are competing directly against larger rivals in the technology industry, so creating partnerships with large financial institutions is a way for them to avoid getting crushed by bigger tech companies while getting the resources and experience they need to grow.

"In order to compete against the big guys," Lismonde explained, "you need partners."

The massive size of the traditional financial industry creates a huge advantage for a fintech that is seen as being truly collaborative rather than competitive. A fintech company offering a key niche service can aspire to have big institutional clients across the globe. If an early effort at an alliance shows that the fintech is more interested in disrupting its partner's business than in finding a common goal, it could actually jeopardize the fintech's ability to forge new relationships with other financial institutions, shrinking its market opportunity and putting its entire business strategy at risk.

Hughes raised some other issues that illustrate the dynamics at work. Sometimes, big institutions approach fintechs in an effort to fend off potential competition from them. In some cases, such a collaboration can actually lead a fintech to change its planned business strategy in a way that proves advantageous both for it and for its big-company partner.

"Sometimes a competitor can be a good ally, because the real competition is somewhere else."

Also, competitive position makes a difference. As Hughes explained, "Weaker legacy players have the greatest incentive to enter into alliances with disruptive competitors. Once that first domino or two falls, pressure builds quickly on other firms to follow suit."

Finally, established financial institutions understand that many of the challenges to their supremacy are coming from outside the industry entirely, as some of the largest tech companies in the world look to branch out into financial services.

"Sometimes a competitor can be a good ally," Lismonde explained, "because the real competition is somewhere else."

Cultural Challenges and Common Ground

Although alliance professionals instinctively look for win-win scenarios, they must be prepared to encounter a lack of awareness or even a resistance to give-to-get thinking. Lismonde said that the traditional competitive "win-lose mentality" can hurt potential alliances in different ways. Small fintechs often make investment pitches to venture capital and private equity firms based on their ability to disrupt current practices, so turning around and working with established companies risks alienating their sources of capital. Conversely, big institutions can be leery of giving small fintechs access to critical information, fearing that it will be used against them in the future.

Even among willing partners, further challenges arise. Regulatory agencies can see attempts at collaboration as potential antitrust threats, prompting greater oversight or even intervention. The cross-border nature of the financial industry multiplies the number of regulators involved and also creates cultural and language-based hurdles to overcome.

"Without common ground, you can't manage an alliance."

That's particularly the case in the insurance industry, said Lismonde, because "there's a cultural aspect of insurance risk that reflects different values in different cultures." Behavioral norms can vary enough to require adept handling of sensitive issues to avoid both legal prohibitions and cultural taboos.

In addition, partner companies can have very different corporate cultures with respect to how quickly things need to get done, how much funding is available, or what priority to set for certain tasks.

"Without common ground, you can't manage an alliance," Lismonde said.

The Why and the How of Working Together

To find success with an alliance, Lismonde said, it's important to separate strategic decision making that goes into conceiving the idea in the first place from execution—in other words, the way the alliance will actually work. A successful alliance project needs key players in both organizations to come up with a shared, customer-focused vision.

"We all want happy clients," Lismonde said, and organizations can build from there.

This is where alliance professionals come in, of course. Implementing an alliance takes a continuing commitment from everyone involved, inside and outside of the alliance practice. As always, it is on the alliance function to make sure that stakeholders from sales, business development, marketing, and other departments that touch alliances understand the value proposition and rules of engagement between partners (see "Pulling on the Same Rope," *Strategic Alliance Quarterly*, Q4 2020).

"The more binding a contract is, the less room there is for creativity, so there's tension."

"There has to be an understanding of not only the 'why' but also the 'how' in working together," Lismonde explained.

Good contracts are important—but so is keeping a balanced perspective. Especially among competitors, there's a big temptation to create detailed contracts that seek to define every aspect of a relationship. "But the more binding a contract is, the less room there is for creativity, so there's tension," said Lismonde. A more flexible approach might make legal departments more nervous but often produces more positive results (a point that was echoed by **Ben Gomes-Casseres**, CSAP, an author, ASAP thought leader, and professor at Brandeis University, in a recent ASAP Netcast webinar).

Having an open mind about where alliances may lead can also be valuable. A single alliance project may achieve its goals and come to a natural close. But often, a first attempt at partnership can lead to a longer-term vision for a more complete alliance between institutions. Just like personal relationships, Lismonde said, you can't always predict whether a strategic alliance will be short-term or long-term.

Not "Just Another Alliance"

The hard work of partnering in the financial industry doesn't end once the first alliance project has a good result. Successful alliances require constant focus and attention.

Often, according to Lismonde, partners get complacent about their alliances, which can lead to several negative outcomes. In some cases, companies don't get everything they could from their collaborative efforts because employees think, "It's just another alliance."

Even worse, companies can lose sight of why they're collaborating in the first place. One partner institution may prove more powerful than the other, jeopardizing the win-win nature of the relationship. "Mission creep" is a real thing, so it's important for both partners to stay constantly aware of what they're getting out of the alliance, and if problems arise, addressing them tactfully but assertively can help prevent the entire partnership from coming to an abrupt end (see "Data Dilemmas," *Strategic Alliance Quarterly*, Q2 2020).

"Executives need to look at the disruption that's happening and ask: 'If we don't do this alliance project, will we continue as we are, or will someone else erode our market share?'"

Fortunately, there are huge incentives to sustaining these alliances. For big financial institutions, as Wadd suggested, "Many executives will erroneously assume that if they pause a project that includes external collaboration, there is no material cost to their company. But that view is often short-sighted. Executives need to look at the market and the disruption that's happening, and then ask the question: 'If we don't do this alliance project, will we continue as we are, or will someone else change and erode our market share?'" Giving up on a potential alliance opportunity more often than not makes the problem worse, in her experience.

Fintechs for the Win?

Fintech companies are now getting a lot of attention in the business world at large, and both their practices and their partnerships with large financial institutions have already changed the way business gets done in the financial industry.

However, that doesn't necessarily spell the end for traditional banks, brokerage companies, and insurance providers. The smartest ones are getting ahead of the curve by finding ways to use their size and market share to create strategic alliances with upstart fintechs. By doing so, they're not only building bridges that will help them keep their positions as leaders in the industry but also giving their customers the access they want to cutting-edge technology that will improve the client experience.

And that should be a win-win for everyone. ■

Fintech Partnerships: What to Know

- Fintechs are typically smaller startups that employ technology to attract a different customer profile—often younger customers who gravitate toward mobile and online banking, apps for payments, stock trading, and other investments, and even cryptocurrencies.
- Big financial institutions (FIs) are finding that if you can't beat 'em, join 'em—so they're partnering with fintechs to gain access to these new customers.
- Partnering may be cheaper and less risky than acquiring small fintechs—if you buy the wrong company and it doesn't pan out, you're no better off than you were before.
- Data is key, and customers are king—large FIs are willing to share access to the latter with small fintechs in exchange for their specialized analytics capabilities.
- Both large FIs and smaller fintechs face competitive threats from big tech companies looking to encroach on the financial services business, and partnering may be the answer.
- As in many alliance situations, bridging cultural differences is critical, as is finding common ground and a shared, customer-focused vision.

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As a practitioner of collaboration in a variety of perhaps non-traditional alliance functions myself, I've found so many key elements of partnering and collaboration management for synergistic outcomes were perfectly encapsulated by ASAP's offerings.

—Kevin Little, CSAP
Senior Partnership Director
Novo Nordisk

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