



## Buy vs Build: Analyzing the Long-Term ROI

Firms considering whether to buy a solution from a vendor or to invest in building a proprietary tool (or continuing to update an existing home-grown tool) should carefully analyze the pros and cons of each approach, including expenses, time commitment, support, etc. For most organizations, purchasing and customizing a solution from a third-party service provider will prove most cost-effective, and should give the firm the confidence it needs to make the most of that system now, and for years to come.

## Evaluating Costs

Whether you choose to buy or build, there will be a cost involved, both known and hidden. When you opt to go with a vendor, those expenses should be clearly defined. Costs of implementing, customizing and providing ongoing support for your compliance system should be clearly identified in a services agreement with the provider.

Firms considering building or updating their own tool because they believe it will be cheaper may be in for sticker shock. While costs will vary widely depending on a number of factors including the level of customization, the number of systems to update and integrate, where employees are located, geographic markets served, the types of business the firm is engaged in, and the functionality needed, firms can easily spend between \$3-4 million in the development stage alone.

On top of initial developments costs, maintaining a custom-built solution will require an ongoing outlay for IT resources, database costs, third-party software licenses and more. These expenses can range from \$700,000 - \$900,000/year. In addition, the system will need to be hosted; this can add an additional \$250,000 - \$500,000/year. And then there is the issue of resource continuity.

In many cases, firms choose to buy and implement a third-party provider's system simply because the organization cannot find the right internal resources to build a system, or cannot get approval and support

to build, maintain and support a proprietary tool. You need people with both the IT know-how and an understanding of the business of compliance and operations. That can be a tall order. An extended period spent evaluating your options can ultimately be little more than an exercise in marking time trying to understand the problem, before selecting a solution.

Due to continuing changes in technology, regulations, and organizational needs, the lifespan of a compliance technology solution is limited. When you add up the initial and ongoing expenses, the cost of building and maintaining your own system can reach more than \$10 million over an eight- to ten-year period, depending upon the type of system.

## Time is of the Essence

When it comes to regulatory compliance efforts, time truly is of the essence. Of course, you shouldn't jump blindly into a decision about a new software solution, however neither should you drag your feet. There are both direct and indirect costs associated with delaying implementation of a new system. Evaluating your options – to build a new system, fix or make updates to existing systems, or to use a third-party vendor's solution, comes with an opportunity cost. While you are analyzing numbers, comparing options and deliberating, your compliance staff is stuck in limbo, unable to efficiently (or sometimes effectively) do their jobs.

### QUICK FACT

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## Why Build?

Firms may choose to build their own systems for a variety of reasons. Chief among them are the ability to tailor the system to meet the organization's precise needs, and the ability to seamlessly add new capabilities into the company's existing IT infrastructure.

While building a system from the ground up can accomplish these goals, firms may be surprised to learn that there are third-party vendor solutions on the market designed to specifically meet these needs.

## Why Buy?

Choosing to purchase compliance technology from a third-party vendor can be both faster and less expensive than building your own system. You'll also benefit from professionally-provided training, technology and business expertise, a range of features, ongoing enhancements, and more.

The following areas support the decision to buy:

- **Cost.** Compared to the cost of building a compliance solution, purchasing a product from a compliance technology service provider is far less expensive, to the tune of 25 – 33% of the cost of building a system in-house.

When you consider the cost of ongoing expenses, buying a system will also save the firm money. Up-front licensing costs are generally minimal compared to an in-house build, and the expenses of ongoing maintenance, hosting and support are typically included. More importantly, these costs are known and predictable (so should not cause any surprises).

- **Implementation time.** Third-party solutions almost always require less time to implement than a solution that's built internally. While customizing the tool to meet your organization's needs involves time and effort, it's generally a significantly shorter wait than building.

Firms that choose to build their own system often go into the project with unrealistic

expectations, and don't consider the impact of time delays caused by resource issues, a failure to budget enough for the project, and the "scope creep" that can occur due to poorly-defined or evolving requirements.

- **Feature-rich.** Software solutions provided by technology companies in the business of providing compliance technology will have features your organization may not have even considered. These options can help improve productivity, helping users work "smarter."
- **Domain expertise.** When you choose a service provider that focuses on compliance technology, you'll have a solution that meets both your business needs and the technical requirements behind those needs. Vendors are focused on understanding the problems firms face, and finding solutions for those problems. The end result is that the third-party provider's system is functionally more complete, including the attributes and features your organization needs to be on top of its compliance game. In most firms, it may be unrealistic to expect the same focus and level of support from internal IT resources.
- **Training.** Rather than having to figure out how to operate the bells and whistles on your compliance system alone, you'll have vendor-provided training when choosing a third-party provider.
- **Enhancements and upgrades.** An organization that builds their own system may quickly find that the system they've built is out-of-date; changes can be costly, time-consuming and impractical to implement. Choosing a pre-built compliance system means you don't need to worry about expending resources to upgrade your system when the regulatory environment dictates changes. Compliance technology providers understand the need to stay on top of a changing regulatory landscape and have a vested interest in implementing and rolling out changes in a timely manner.

- **Built with the end-user in mind.** Choosing a third-party provider’s system should also mean that the tool has been proven through extensive field testing and use in other organizations. And, because helping firms implement the system is what your service provider does, you can be confident knowing that there are well-documented steps and a clear implementation plan.
- **Quality solution.** Building and implementing a home-grown system can result in a variety of problems, including workflows that don’t operate as intended, data accuracy concerns, an incomplete or inadequate audit trail, etc. When you choose to purchase a solution, you can be confident that the system you’re implementing will be adaptable, reliable and scalable, as your organization grows and changes.

The compliance technology field is competitive, so service providers know they need to continue to reinvest in staff development and training. The onus is on the vendor to continue innovating and upgrading their products to meet changing demands. When you’re a customer of such a provider, you’ll reap the benefits of those enhancements. You’ll also have the opportunity to make your voice heard as a member of the vendor’s customer community.

- **The customer is king.** Firms that choose to build a compliance technology solution in-house often learn that their internal IT departments may not be as reactive as they should be. IT departments are competing with multiple projects and tasks, and are limited in what they can accomplish. Because of this, compliance technology projects can fall behind, and service levels can drop.

Firms also face challenges because of the “key man” problem. In most organizations, there are few people who have an in-depth knowledge of the firm’s systems. If the compliance department is dependent on someone who leaves the firm or is out of the office when you need help, you may not have anyone to turn to. When you work with a third-party provider, you will have a team of professionals with deep systems knowledge available to help if you need them.

A commercial relationship with legally binding terms and conditions means that service levels are guaranteed, generally going far beyond what you might expect from an internal IT relationship. Successfully operating in the financial services industry requires third-party vendors to take a customer-centric approach to everything they do. When you’re evaluating service providers, ask for references to other customers – a quality vendor shouldn’t have any trouble connecting you with satisfied customers whose needs are similar to your company’s needs.

### **Making the Decision**

Your decision to buy – or build – a compliance technology system should be based on more than financial considerations. If you are considering building or improving your own system, ask yourself whether doing so is a strategic move, based on where your firm is today – and where you want to go in the future. More often than not, compliance has inherited a system. If given the chance to start over, how would you proceed?

The bottom line is that whatever you decide, your system needs to support your existing compliance staff and resources, and be designed to grow with you.