i3strategies®

FINANCIAL CRIME RISK AND COMPLIANCE

SELLING SOFTWARE, SIMPLIFIED

AUGUST 2022

WHITE PAPER

THIS WHITE PAPER IS FOR:

Sales and Marketing professionals across technology companies that sell into the Financial Crime Risk and Compliance space. Additionally, investors with interests in this space.

OUR UNIQUE LENS:

Our understanding, perspective, and opinions of Financial Crime Risk and Compliance are sharpened from 25 years of experience as buyers, builders, sellers, and the overlap between these roles. Over two decades we built programs, dealt with audits and examinations, and presented to boards of directors. We know firsthand what motivates compliance executives and institutions to buy consulting services and software. We know what it takes to hire and manage hundreds of Financial Crime Risk and Compliance workers. We know the process for securing budget and the time, effort, and cost to implement software. As builders and sellers of consulting firms and RegTech products, we know how to pitch prospects, close deals, and sometimes, lose deals. We know how to build software and break into a crowded, complex, and reluctant buying environment. We know how to start, fund, and sell RegTech companies. We know how to successfully integrate those companies and how post acquisition integration fails. In sum, we see all sides because we've been on all sides.

INTRODUCTION

Current global economic conditions are leading Financial Crime Compliance software companies and their investors to assess funding, sales pipelines, marketing spend, staffing, and product viability. In good times investment money flows freely to start-ups and young companies, particularly in a market like RegTech, where software seems poised to solve many day-to-day operating problems. However, when times are tight, like now, investors look hard at whether their investments will yield a return, and software companies must look to improve their chances of viability. Some must make tough decisions.

Let us offer some perspective on how RegTech software companies can improve their chances of success and where investors should look to invest.

> First, let's stipulate that selling into the Financial Crime Risk and Compliance space is really difficult. Financial institutions move slow, very slow. At any point, only a few financial institutions are serious about buying new AML or fraud detection and investigation software. Many institutions agree to see product demos and meet with sales representatives, but very few then buy. With a recession upon us, finding buyers is an even greater challenge.

Fintechs and cryptocurrency issuers and exchanges provide some relief to this bleak situation. Because they have no legacy systems to replace and they need AML and fraud software to begin operations, Fintechs and crypto companies have an immediate need for software. Price points are lower and these young companies have less bureaucracy. This means sales cycles move faster. RegTech software companies find many early customers among Fintechs, neo-banks, and crypto exchanges. Competition for these buyers is intense.

In such a tough environment, where many software firms are chasing a small purchasing pool, what motivates buyers to buy and what can sellers do to help deal prospects?

SIMPLIFY, PART I

GIVE YOUR SOFTWARE A FIGHTING CHANCE

Every potential buyer has their own problem that needs solving. For some, it is to reduce false positives; for some, it is a faster identification verification; for others, it's case management or data analysis needs. Regardless, the software products best positioned to find buyers are those that are simple.

By simple, we mean applications that are simple to explain, simple to understand, simple to sell, simple to deploy (or subscribe to), simple to use, and simple to price.

Most product marketing, including websites and sales presentations, do not clearly describe what an application does. Most software demonstrations don't convince prospects to buy. Most sales meetings don't lead to sales.

When selling expensive software that seeks to replace existing applications, the win rate is naturally low. But when financial institutions use systems 15 to 20 years old, consistently complain about poor output and are frustrated by costly manual work, shouldn't the win rate be better?

01 — UNDERSTAND THE BUYER'S PROBLEM

02 — EXPLAIN HOW THE PRODUCT SOLVES

03 — EXPLAIN HOW THE PRODUCT DEPLOYS

04 — EXPLAIN WHAT THE PRODUCT COSTS

SIMPLIFY, PART II

RECOGNIZE THE DISCONNECT BETWEEN SELLERS AND BUYERS

How software sellers approach the market and the language they use to sell their products hurts sales.

Entrepreneurs who start new software companies are, by definition, risk takers. They see a problem like too many false positives and say, "I can fix that with better code." They believe in themselves and their fellow developers. Moreover, they see themselves as "disruptors." To them, "disruption" is awesome. They want to change things and do so with flair. This enthusiasm shows on their websites and marketing, touting how their product upends old, weak, and slow systems.

Contrast this ethos of "let's disrupt!" with a compliance officer buyer whose professional existence rests upon a foundation of risk aversion. Their jobs are to identify and mitigate risk. Imagine a pitch for a new transaction monitoring or case management or KYC system that "disrupts" or "reimagines" everything your team now does. When a mental collision occurs, the buyer retreats to the safety of the status quo. Despite concerns around inefficiency, false positives, and overly manual work processes, the status quo is still safe. So while motivated to improve, buyers weigh the cost and impact of change and often decide staying the course is acceptable.

This disconnect in perception should not be made worse by sellers using vague and confusing language in marketing and sales presentations. Sellers work for a company excited about its products. They are well versed in the language of technology, and are eager to sell. Financial Crime Risk and Compliance buyers are rarely technologists themselves. Terms like "AI," "machine learning," "distributed cloud architecture," “low-code, no-code” and “integrated contextual decisioning” are used so often and in so many nonsense marketing sentences, they lack meaning. Many sales presentations rely on these and other tech-heavy words assuming buyers understand them. This is a problem.

People want to avoid appearing foolish. It is rare for a buyer to stop the seller during a pitch and say, "We hear these terms all the time, and I understand you are excited about your product. But for our sake, can you define the terms you're using with understandable examples, or can we stick to simpler language explaining how you solve our problem of too many false positives." Instead of speaking up, buyers listen to the sales pitch and scan the slides but ultimately they feel lost. Once a prospect is confused by technical language, the likelihood of a deal shrinks considerably.

SIMPLIFY, PART III

SIMPLE SELLS

Let's say a seller and buyer fully understand each other, and the buyer is genuinely interested in buying; this is where simple now really matters.

Buyers need software they see as simple to deploy. Remember, buyers weigh the need to improve their operations against the risk disruption creates. Disruption upsets staff, slows operations and increases compliance risk.

What are some features software providers can include that reduce the perceived risk of disruption?

Cloud-based solutions. A more straightforward option for many buyers. Using the cloud avoids lengthy implementations, battles with the IT department, and inevitable cost overruns. However, getting the information security and privacy department's approval for cloud solutions can be a headache. Adept sellers will devote resources to support buyers as they navigate their required vendor management and onboarding bureaucracy. Sellers must focus on keeping deal momentum even after the buyer says, "yes."

Easy-to-use APIs. Data integration is always a concern with new financial crime compliance software. This issue alone is what often stops buyers from purchasing new applications. Software that easily integrates with in-house and third-party data systems has a major advantage. If you're a data provider, you must have simple APIs to feed adverse media data, sanctions lists, watchlists, PEP, and other data. If your application supports case investigations by automatically fetching third-party data, it must integrate easily with case management platforms. If your application is a platform, it must be simple for other applications to integrate. To a technologist, this sounds elementary, but non-technical buyers need to understand how APIs work, how you can prove it, and how they can assure their management installing or subscribing to your software will succeed and not run over budget and over schedule.

SIMPLIFY, PART III

Easy to explain applications. Internal auditors and regulatory examiners may be more concerned about "disruption" and "change" than a Financial Crime Risk and Compliance buyer. If auditors and examiners fear risk rising, it means more risk to them. This is not a situation any financial institution wants. A buyer must feel confident they can explain to regulators and auditors their decision to purchase a new application, how it improves compliance, and how deploying it does not increase risk. If the buyer feels they cannot simply explain this, it becomes a significant hurdle to a purchasing decision. In addition, during the sales process, buyers are thinking about how they will present buying decisions to their management, the CEO, the CFO, and the board of directors. Sellers must equip buyers with simple to convey value statements so executives and a board won't hold up the purchase.

Easy to Use Applications. In addition to making applications simple to understand, communicate, and deploy, they must be simple to use. Although many of the systems analysts and investigators now use are slow, outdated, and frustrating, users feel comfortable using them. They've created shortcuts to make their work feel more efficient. If users perceive replacing existing systems as too big of a change, this will cause problems. Workers will complain, slow down, and sometimes fail to perform as needed to maintain compliance. However, every worker uses modern technology in their personal lives, so the idea of trying something new isn't insurmountable. Sellers should remember while people are willing to try new applications, they quickly discard them when running into even a tiny amount of friction. Sellers must remember that the head of Financial Crime Risk and Compliance is influenced by how their staff think of your software. During the sale process, get key analysts, investigators, and other users involved.

Simple Pricing. Buyers must convince others in their organization your software is a good investment. Executives want to know what it costs. Equip the buyer with the information they need to answer this question confidently and clearly. If executives and the board of directors do not feel pricing information is simple and straightforward, deals won't close.

SIMPLIFIED, PART IV

SIMPLE ADVICE

Selling Financial Crime Compliance software into highly regulated, risk-averse markets is complex regardless of economic circumstances. In recessions doing so becomes significantly more complicated. Don't compound the challenge by selling software buyers see as complex and risky. Build simple software. Simple to sell, use, and purchase. For investors, find companies doing this.

THESE VALUE PROPOSITIONS ARE WHAT BUYERS WANT

+ SOFTWARE THAT ACCELERATES WORK

+ SOFTWARE THAT FINDS ACTUAL FINANCIAL CRIME RISK

ABOUT US

Boutique Strategy Management Consultant

We were founded in 2015 on the core tenets of intelligence, innovation, and integration. Our firm is led by successful founders, operators, and industry executives from the Financial Crime Risk and Compliance space.

We bring unparalleled perspective to a multi-billion dollar market where clarity and expertise matter more than ever.

Our clients include some of the world's largest financial institutions, investors, technology companies, and professional services firms.

Let's Talk

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