RMA

Resource
Management
Associates

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Pricing Model Changes
Financial Pricing Outlook

Welcome,

Contract re-negotiations are certainly not new. Indeed, we know many reasons can trigger a Financial Institution to want to renegotiate its contract.

A significant acquisition shortly after signing a new contract, newly available products, or possibly an updated strategic plan.

Whatever your reason, we at RMA would like to assist you in a renegotiated contract engagement. We routinely provide our past and current clients with insight on recent industry changes that could potentially impact your institution.

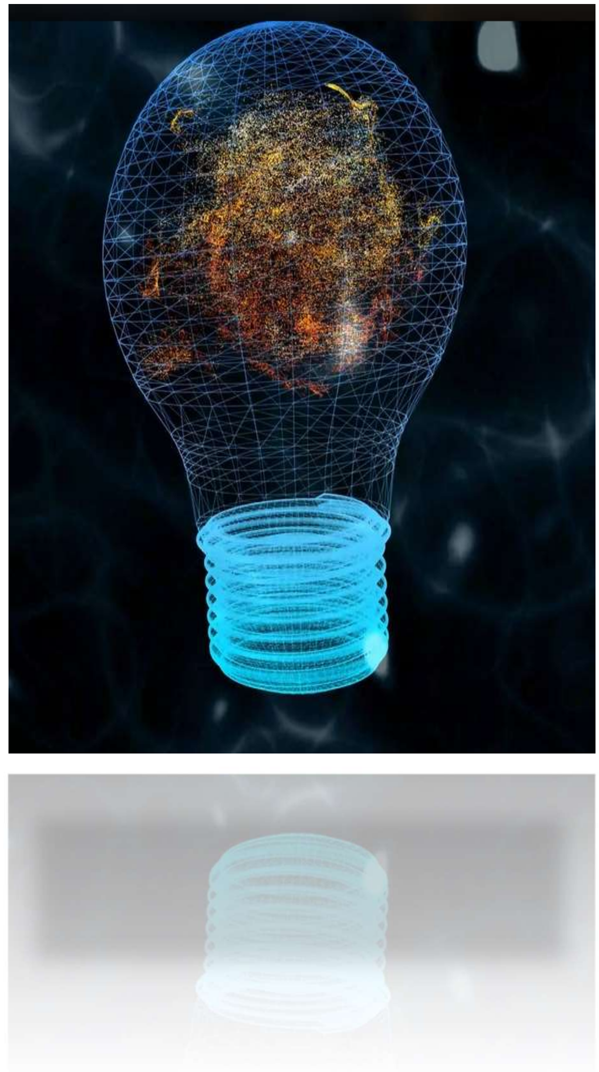
Furthermore, bankers are learning that they do not have to wait until the last year of their contract to make changes. Typically, we find little reluctance by the vendor for new terms, as it is, in fact, a brand-new contract.

This whitepaper summarizes RMA's views on how we arrived at these recent changes to the contractual landscape and specific areas we believe you should focus on before your current contract is up for review.

Thank you again for your interest; we hope this provides value to your business.

Ed

The economy continues to amplify bank attrition in some market areas, with surviving banks experiencing unexpected new account volumes.



The pandemic caused unusual debit card activity. Working from & shopping from home was a natural stimulus to use “the card.” And use it, they did. The increased volume took many by surprise.

As Financial Institutions continue to look for ways to innovate and compete, we see an additional challenge on the horizon as software processing vendors tweak and modify existing pricing models.

The real question during a renegotiation is how to obtain the best price with fair terms. To better understand where the Bank and Vendor relationship is headed, you need to know about its past.

RMA has been intricately involved in the selection and negotiation process over the last six decades. To better answer the question,

"How did we get here?" **let’s see!**

The 70's - Hardware-Based Pricing (Computer systems)

At first, hardware led the charge with IBM and Unisys, although it became clear software would be the primary driver in this new world with such soon-to-be-powerhouses as JHA and ITI. One of the first published prices software was Kirchman, a simple, linear pricing model where costs were tied to assets.

80' s – Smart Mainframes & Dumb Terminals

As we entered the next decade, software companies like FISERV and BISYS brought in new complexities such as service bureaus and small mainframes, all tied to an array of "dumb terminals" (Systeme, Saddlebrook). In-House versions of software began taking larger bites of revenue for "installations" and billing for transactions accounts, ushering in the dreaded *"nickel & dime"* phase.

90's – Reboots & RAM

PCs continue to replace terminals, and bank networks quickly expand to unforeseen levels with Windows 95, spreadsheets, and office printing.

Introducing: Fear and Chaos

With Y2K prep came faxed sales orders, and sales quotas were met faster than it took the dial-up modem to connect!

2000's – NO2K

After this "non-event," pricing made an unusual move. Core processing moved away from a linear asset calculation to DDA and consumer loan groups, with transaction pricing based on the number of accounts.

2010 – A Disaster Recovery Plan.

Disaster recovery became an emphasis when Hurricane Sandy came ashore in October 2012. Although pricing systems maintained some normalcy, the industry experienced big pushes with in-house to outsourced systems that included disaster avoidance. Pricing became an equal mix of bundled products, asset-based pricing, and the number of accounts ran thru End of Day.

2020 – Outsource

Infrastructure upgrades are absorbed into the outsourced version of core processing.

Financial institutions begin to favor outsourced solutions.

2022 – Account Grouping Pricing

A new pricing plan emerges, representing a mix of pricing models from the 70s to today, with all-new product groupings and pricing based on open accounts that go thru End of Day, with a separate fixed price for closed accounts.

What changes can we expect now?

RMA Trending Analysis

- **We see a 90% variable cost based on a number of open accounts.**
- **There appears to be no tiered pricing as volumes increase!**
- **You will need to play the prediction game. (Required minimums)**
- **Closed accounts now have a fixed unit price, regardless of volume.**
- **Core and Card processing have separate proposals and discounts.**

And finally, products are heavily tied together,
so you may "buy a bundle" instead of selecting specific products.

(Bonus Information - This new pricing model could cause contingency-based consultants who thrive on historical pricing databases to become obsolete.)

Let's tackle two of the changes.
First, what is "buying a bundle?"

Task: Buying a car
You will often see a "base price," followed by the optional equipment listed on the sticker, with a final "discount," depending on the manager's decision.

Now it's time to make the purchase, and the vehicle you want is directly in front of you on the showroom floor, yet it has a heated steering wheel and seats.

Issue: You live in Miami, FL.
You end up buying the car and the features, usable or not. This type of pricing takes detailed work to understand precisely what you are purchasing.

Bundling can seem a little deceiving at first!

Next, let's discuss Core and Card processing.

A way to control the process?

We calculate the total cost based on actual accounting records, sound work measurement, and cost accounting techniques for the last 12-month period.

Then we calculate the total, including the vendor's proposed cost for the contract's average annual cost. This includes the nitty-gritty product unit cost improvements and any overall discount that can be applied.

Less work, Less confusion…. tangible improvements.

Pricing methods by vendors have become very sophisticated.

RMA believes that, like many things, understanding the history and evolution of these pricing methods allows more benefit for our clients. **Our assignments have a high success rate using technology and banking experience from the '80s to today; our references bear that out.**

Furthermore, bankers are learning that they do not have to wait until the last year of their contract to make changes. The vendor is not reluctant because they get a new term. It is a new contract.

Our proposals include a "fixed fee," never on contingency (based on savings). These types of arrangements can turn into adversarial situations. RMA believes a contract is most useful when mutually beneficial to both parties. Our unique approach ensures our client gets an excellent price in contract negotiations.

We invite you to discuss this with us at no charge.

RMA

Resource Management Associates

RMA is a leader in the field. President, Ed Ginn, began his banking career in 1975 with Landmark Banking Corp., Ft. Lauderdale, Florida. Formed in 1980, Resource Management Associates is a successful consulting business that included selection and contract negotiations over forty years.

"We know our history;
let us help you in the future."

For more information about pricing model changes affecting your next contract renewal, head to our website for more content.

https://www.resourcemanagementassociates.com/contractrenegotiation

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