

Behind the Scenes

I just returned from the Mortgage Bankers Association's (MBA's) National Technology in Mortgage Banking Conference in Tampa, Florida, where I often heard comments about too few mortgage bankers visiting the trade floor. While it's true the conference was light on mortgage bankers, the industry would do better by understanding the real importance of this vital conference.

As a mortgage technologist, I find no other show as important as this one. However, I never expected a lot of technology sales to occur when I was an exhibitor at the conference. There are many other shows that are optimal for selling solutions. If you attend this show and listen carefully, you'll find how the mortgage technology industry really operates behind the scenes. The most successful technology vendors are often those that know how to work this show well.

First and most important, this show is for building partnerships. No other show has more wheeling and dealing among vendors than this one. It's crucial that technology firms partner with many other companies. Take a look at the loan origination system (LOS) companies such as San Jose, California-based Calyx Software and Dublin, California-based Ellie Mae Inc. You'll see they have partnership agreements with literally hundreds of firms.

It's not uncommon for software firms to have several people dedicated to developing partnerships, and for the chief executive officer (CEO) to spend a significant portion of his or her time forging these deals. A forward-thinking technology vendor CEO can increase sales through strong partnering.

It's important to note that no software vendor in the industry can satisfy all of its customers' needs. Some of the more shortsighted vendors believe they can develop what their customers need and can do a better job than anyone else. The smarter CEOs will know their core area in the market and will allow the free enter-

prise system to develop all of the needed add-on solutions.

Take, for example, what PushMX Software, San Jose, California, has done for Calyx. PushMX has found a customer niche by providing a unique solution that works in conjunction with Calyx® software. Not every Calyx customer needs the PushMX reporting system. In fact, if Calyx included all the features of all the firms like PushMX, the product would quickly lose its appeal.

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That's because you can have a software product that is just too feature-rich for the primary target market.

Imagine if Microsoft® Word® came with all of the features of Adobe® Systems Inc.'s InDesign®. Sure, there are users out there that would like a full desktop publishing solution to be included in Word. But for the average user, all those extra features would just get in the way of writing a simple letter. It is very easy for an LOS to become too feature-rich for its target market. Many small mortgage brokers just need their LOS to process loans.

However, some larger Calyx clients could really use the advanced reporting solutions that PushMX offers. The fact that PushMX can integrate with the Calyx data is crucial. Calyx has a wide variety of third-party companies it works with that help Calyx customers better use its core product, Point® LOS. The more partners that a given software firm has, the more successful its customers will be in using the software. If you run a mortgage firm, it's crucial to find an LOS software vendor with significant support among third-party vendors.

This is also true for third-party service providers. These are the providers of services such as credit reports, flood certificates, appraisals, title policies and a dozen more such products. Ellie Mae has gone to great lengths to demonstrate to the industry how many providers support its ePASS® Network. Clearly, the more service providers that support a given software system, the more options the mortgage companies have when using that software.

The mortgage company also becomes more efficient as more of its data moves electronically. This becomes the bane of new LOS firms and, in my view, one reason we haven't seen a major new player in the LOS market in the last dozen or so years.

All of the LOS vendors today with significant market share were started prior to the mid-1990s. A new player would have a difficult time obtaining support from the service providers and other technology vendors. Without a large customer base, few third-party firms want to invest their resources building connectivity solutions to a new LOS.

As the entrenched firms obtain more and more support from third parties, their software becomes even more in demand. This snowball effect is why, over time, the broker LOS market has grown from being highly fragmented in the 1990s to being dominated by just two firms today (Calyx and Ellie Mae). Now we can start to see why the intra-vendor community deal-making at MBA's technology conference is so crucial.

Beyond that, there are even more

advantages to attending this annual conference. There are many strategic decisions whose genesis traces back to this conference. When I was the chief strategy officer at Ellie Mae, it was my role to read the industry trends and to set the correct path for Ellie Mae to follow. Getting just one major strategy wrong risked severely hampering the firm. This is where listening at the conference becomes crucial.

I would walk the exhibit hall floor, talking with virtually every technology vendor and asking key questions. Most of the questions centered on issues of traction. If a vendor offered a new solution, I would want to know how well it was being received. I would want to know how many customers were using it, what they paid for it, what were the perceived benefits by the users, and so forth.

Sometimes, I would watch some of the firms for years before I would make a decision to jump into a given technology arena. For example, imaging solutions were plentiful in the mid-1990s, but they just weren't ready for the mainstream market. It took 10 years before the solutions were powerful enough and inexpensive enough to justify their purchase by the majority of the mortgage industry.

Back when I played this role, I found I had to walk a fine line. If I jumped into a new technology application arena too early, I would waste resources selling a solution that brought in little revenue. If I was too late, I risked being seen as a vendor that was behind the technology curve and missing out on new sales.

Then there is what I like to call the winners-and-losers list. Every year, some technology firms go out of business while others bring something new to the market. It's been a hobby of mine to try to pick out the losers long before they disappear.

I have attended the MBA National Technology in Mortgage Banking Conference since the very first one. In doing so, I became increasingly adept at picking the losers early on. This is crucial, as working with a firm that's not going to make it is a big waste of resources. For mortgage companies, buying a product from a firm about to go out of business can be a costly mistake.

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dor that just closed down. I can remember one show in particular where a large firm literally closed its doors on the second day of the show. The booth and all the materials remained there all that day, as the employees had no reason to show up. I remember one of this shuttered firm's employees didn't have an airplane ticket to get back home, and had to pay for it himself.

I also became adept at picking some of the technology vendor winners at conferences. These were the ones with which I'd want to partner. Attending this show each year helps fine-tune skills for detecting these winners and losers among technology vendors.

Over the years, I also found that most major announcements by the technology

At this last conference, I heard a few rumors about certain firms having trouble because of the industry slowdown. Those technology firms that were just getting by in the last several years will have a very difficult time with the current cyclical downturn. And the stronger firms will use today's market to build market share. Often, this is done through an acquisition.

Unlike a New Century Financial, where a company can lose much of its market value quickly, technology firms almost always have some valued assets that can be picked up for pennies on the dollar. Smart vendors recognize this and will move quickly. A sample case is when Ellie Mae bought Genesis™ from the long-defunct iOwn. Ellie Mae ended up with

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vendors are made at this show. Many vendors will save their most important press releases until this conference just to make a big impression. As a regular columnist for *Mortgage Banking*, I get the advantage of perusing all of the press releases. It's great to know what all the releases are about, but even better to hear the talk on the show floor. Some of the releases get more attention than others, and I always like to hear what people think.

The question I ask almost everyone is, "Heard anything interesting?" Invariably, there are always two or three announcements that attendees get excited about.

Finally, the merger-and-acquisition (M&A) scene is always red-hot at this conference. This is the area of the business in which I work in today. The show is the most popular place to find out which companies are doing well, which ones need capital and what fire sales are starting to come up.

ePASS, which I'm guessing has paid its purchase price many times over.

As you can see, the MBA Technology in Mortgage Banking Conference helps in many ways to make a technology vendor firm more successful even if it doesn't lead to finding a single new mortgage-lender client. Nevertheless, this column isn't meant to deter mortgage bankers from attending. In fact, it's regrettable that more mortgage companies don't seize the opportunity to send their top management to this conference. It can be very valuable if you know how to work the show to your advantage. Whether you are a mortgage banker or a mortgage technologist, attending this conference should be considered a professional must.

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