Voices Build it or buy it? Figuring out the best fintech option

I spend a lot of time looking at alternatives and making decisions about our technology spend at United Capital. Often it comes down to a 'build or buy' decision — should we build a custom application that exactly suits our needs, or should we utilize off-the-shelf software and hope we get close enough?

What I've found is that in some cases there is a hybrid solution that combines the best of both options.

These are never easy decisions. Choosing the right software is crucial for your business to adapt and grow, and balancing your company's present needs against its long-term growth potential is challenging. This is especially true for startups or smaller practices where funding is an issue.
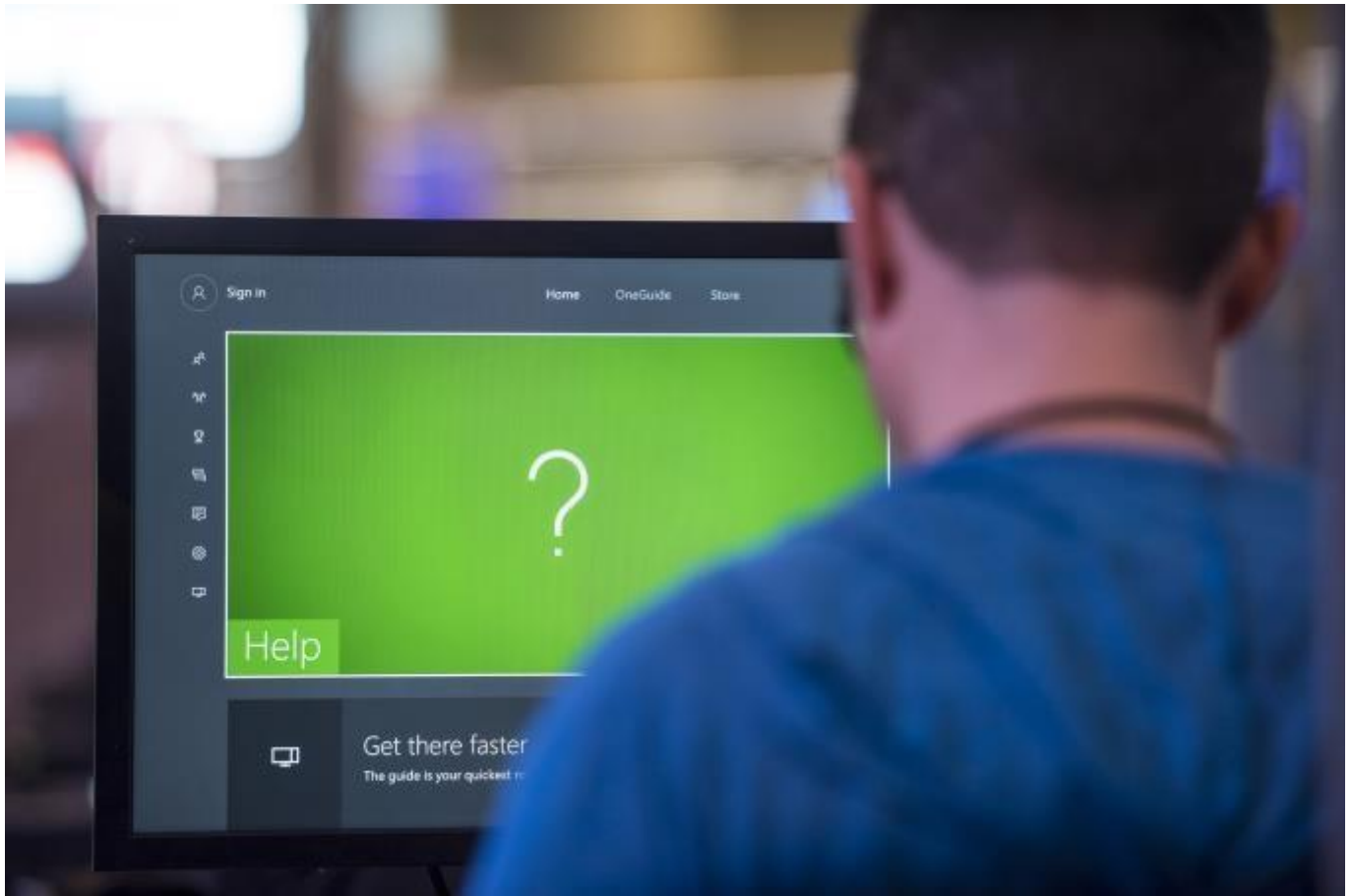
Evaluating technology needs for your company? Measure your situation and needs before a purchase.

Investing in off-the-shelf software is the faster and cheaper solution; however, over time, it could also prove to be insufficient for your specific needs. It might generate inefficiencies and impede scalability, and if your goal is to differentiate your business from the competition, off-the-shelf software may not get you there.

Building custom software can result in a myriad of benefits, but it requires a substantial investment of energy, resources and time. Companies should only undertake this strategy if they are certain that custom software will provide a distinct advantage relative to competitors, and if the size of your business allows for spreading the cost of a proprietary system over your revenue base.

Weigh your situation to better determine what's the right strategy for your firm.

FINANCIAL SENSE

Under certain circumstances, relying on off-the-shelf solutions may be the more sensible option. Smaller businesses in particular may especially benefit after taking these factors into account:

- The costs associated with building custom software may be the most logical reason for businesses to avoid this option. Off-the-shelf solutions are almost always cheaper in the short term and therefore make more financial sense for a company with a smaller budget.

- If you do not have access to a strong in-house software team with the necessary skills to build out custom software, it might be best to pass on the opportunity until you do. If you cannot hold your software developers accountable, it will be difficult to create great products.

- Building proprietary software takes a great deal of time to complete. Don't underestimate the amount of time it takes to adequately test out a complete set of use-cases, and the ongoing investment to keep software relevant. Businesses that cannot invest the time should not pursue it.

- There are existing off-the-shelf solutions that have proven to be effective for your purposes.

SPECIALIZED NEEDS

However, off-the-shelf software cannot meet every need for every business.

- If your business has specialized needs, custom software may be a better solution.

- Off-the-shelf software solutions are generally rigid. The vast majority will not allow you to modify their functionality in any meaningful way. It may be difficult to add or delete built-in features, which could lead to either too many or too few functions for your company.

- Off-the-shelf software may not be compatible with your existing programs. If all your programs do not communicate smoothly and effectively, it could result in operational inefficiencies. If you build your own software, you can integrate with a wider set of APIs from different software and data partners.

HYBRID SOLUTION

When deciding the best technology solution for creating our FinLife platform for advisers, I was faced with these two options. However, I chose to pursue an alternative route. We utilized both off-the-shelf and custom software to build out a hybrid technology platform.

Where we needed to strongly differentiate to fill a gap and couldn't find a reasonable solution, we invested in custom technology. And where we could tap into satisfactory solutions that were not critical to differentiate us, we used off-the-shelf software and made a smaller investment to integrate the third-party software into our experience.

From an adviser's perspective, the resulting product is an off-the-shelf solution that minimizes upfront as well as ongoing development costs. Yet, since it is only available to select advisers, it helps address concerns that clients will see in every competitor's offering.

Your business is a dynamic, evolving organization, and your software also has to adapt and grow in order to remain competitive. Ultimately, a decision has to be made as to whether an off-the-shelf solution best meets your needs, or if building your own technology is better suited for your specific business purposes. Or, as I did, consider a hybrid solution.

Author: Mike Capelle is head of United Capital's technology platform. One of United Capital's founders, Capelle is responsible for the company's technology and for driving enterprise innovation.