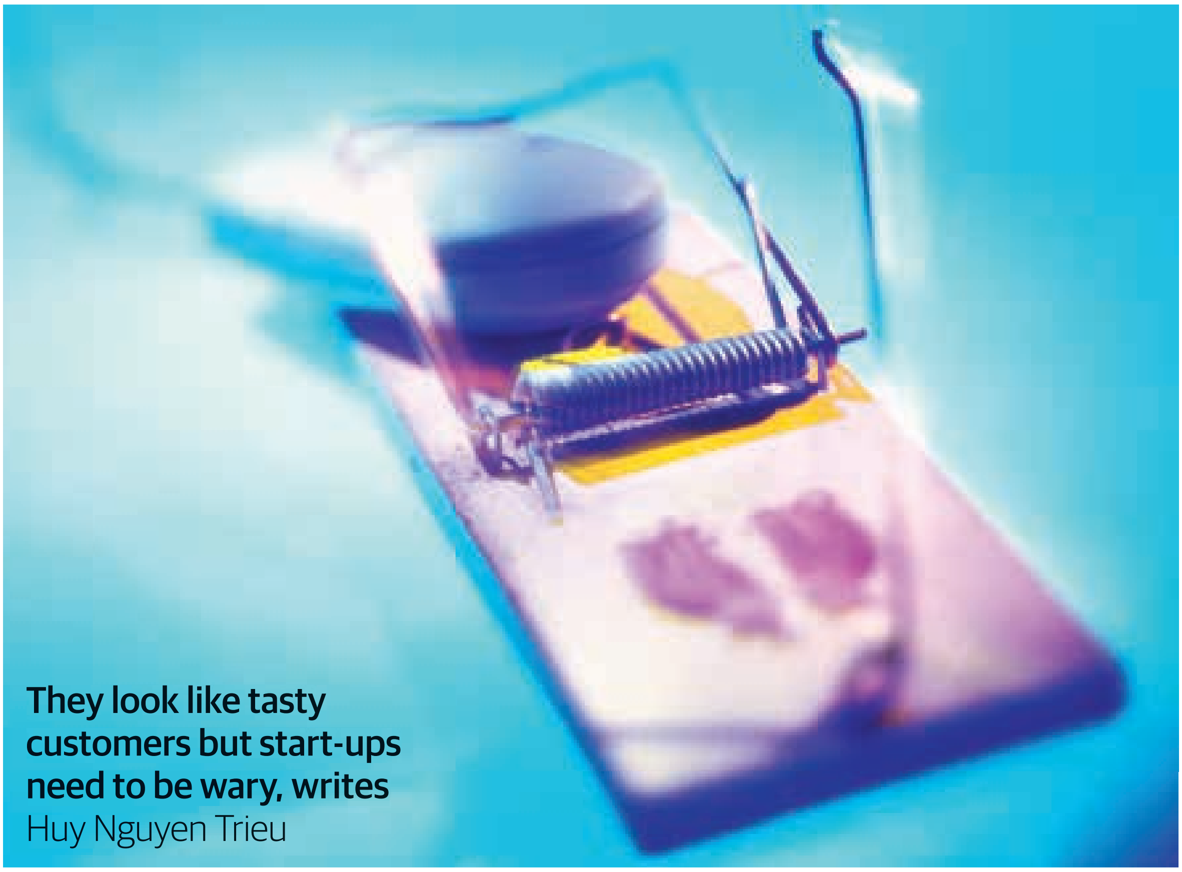

Fatal attraction: young companies may bite off more than they can chew if they get involved with the big players

They look like tasty customers but start-ups need to be wary, writes Huy Nguyen Trieu

Beware the lure of the big banks

"Shall we target the large banks?" That was the question asked by the CEO of a promising US start-up. Their product is faster and 10 times cheaper than the current approach used by banks, so it seems a no-brainer to approach the largest banks.

This is a question that often comes back in fintech: what are the target customers for a start-up and should they go after the large banks, insurers, asset managers? The benefits are obvious: an interest from a large bank immediately validates the concept, projects are usually very large, yield big revenues and have great marketing impact. This would, of course, lead to increased interest from venture capital and higher valuation – hallelujah!

But this is not always the best strategy. When I was CEO of Ukibi, a company that designed software for mobile operators, we had a superb technology that was a no-brainer for the large telecom operators. And we thought we had won big when a few telcos asked us to work with them.

This is how the process goes. At an early stage, there is usually a pilot where the client sees the product in action – and that's when the problems start. For an entrepreneur, a pilot looks like a quick exercise that leads to a contract. For a large organisation, a pilot is the first of very many steps that may or may not lead to something else. The something else could be another pilot or the dreaded Request for Proposal.

A RFP shows that there is a real interest from the potential client – after all, their business and procurement teams may spend several months drafting it – but it also means a very long process that will consume a lot of resources from a small start-up.

The client will ask for presentations, technical specs, meetings and more meetings. And although large clients will be interested in innovative start-ups, the reality is that, in many cases, they will be reluctant to partner with a start-up when any problem could affect tens of millions of their own customers.

As a start-up, I found this frustrating. Now I work for a larger bank, I understand it more. If you're making big decisions in a large organisation, how valuable is innovation if the product crashes and you get on the front pages of newspapers for the wrong reasons?

A large bank or insurer will, therefore, care more about risk (reputation, regulatory, security) and scalability – which is usually exactly the opposite of the objectives of a start-up.

As an entrepreneur, I sometimes felt like banging my head against a wall but, as a banker, I now understand that I was perhaps trying to hit the wrong wall.

These were painful lessons that make me wary of business plans that are based on "selling to the big banks". Does it mean that you shouldn't sell to big banks/insurance/asset managers? Not necessarily... but, if you do, make sure that you connect to existing processes. For example, Citigroup has the Innovation Labs that are designed to integrate new technologies; Lloyds partners with Startupbootcamp to work with innovative start-ups; and many banks work with accelerator Level39 to achieve the same.

These programmes will represent a good entry point to the large organisations – in my opinion, they are even better than a recommendation from the CEO.

For a start-up, the target market is one of the most important decisions. A contract with a large client is a very big bet: risky, but could be an amazing breakthrough. Do you want to bet your whole business on one spin of the wheel? Or spread your risk and go after a range of smaller banks, system integrators or larger start-ups?

As an entrepreneur, you need to know the perils of an adventure with large companies – and make sure you have a Plan B in your back pocket.

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