EXECUTIVE INSIGHTS

From Competition to Co-Opetition: How Partnerships Fuel Bank Success

Automotive trailblazer Henry Ford said, "Coming together is a beginning, staying together is progress and working together is success." He understood the importance of partnerships in elevating the art of the possible. Regional banks face a pivotal choice. They can either stand by as big banks, big brands, big tech and fintechs steal their customers, or they can invest in innovation partnerships to meet growing demands and expand revenue streams.

In isolation, banks cannot keep up with the rapid pace of tech innovation. However, partnerships can be a game-changer, quickly enhancing an institution's capabilities. Savvy banks recognize the need to partner with a wider range of ecosystem players — including brands, tech firms and fintechs — to accelerate growth and enhance technology, branding and distribution. This shift in the innovation paradigm from "build, buy, partner" to "partner, build, buy" is redefining how banks innovate and operate, empowering them to reach new heights.

While many institutions take a Band-Aid approach, addressing one-off challenges, savvy banks understand that partnerships are a long-term play and a key lever for sustained growth. Successful partnerships start with a unified and clear strategy between the bank and partner, outlining goals, sources of value, shared economics and success metrics to create a win-win proposition for both parties.

Effective collaboration starts with a cohesive strategy between the bank and partner, building trust in the partnership. The relationship will have ups and downs, but maintaining a long-term partnership requires flexibility and adapting to unexpected challenges.

Here, we present a structured framework for evaluating partnerships that maximizes value and enables strategic, informed decisions for long-term success.

While partnerships offer significant benefits across the banking landscape, small and midsized banks have a greater need for successful collaboration. Limited capital resources and operational constraints heighten the importance of partnerships as a strategic lever for these institutions.

And you may ask yourself, 'Well, how did I get here?'

Strategic partnerships work best when a bank has a future-state vision of its role in a distinct and defined ecosystem. This approach forces the bank to self-reflect and address gaps in resources, technology and processes.

With distinct partnership modules and archetypes to pursue, the bank must consider several factors, including resource availability, risk appetite, and technology and partnership orchestration capabilities. These archetypes span organizations that range from "traditionalists" that want to maintain the status quo and compete independently (low risk) to "ecosystem maestros," where the bank aims to build and manage a network of partnerships (higher risk) to provide a broad and holistic set of services to customers (see Figure 1).

Partnerships can progress from initial value chain integrations to full cocreation driven by success or customer needs.

Figure 1

Comparison of strategic partnerships

Increased value creation opportunities

	Traditionalist	Technology collaborator	Ecosystem collaborator	Ecosystem maestro
Strategy	• Maintains the status quo while independently adapting to market changes	• Targets incremental innovation by leveraging partner's tech/digital capabilities	• Ecosystem-based value creation	• Orchestration and value chain integration across multiple sectors
Role	• Focuses on stability and compliance; limited partnerships to ensure control over operations	• Engages in selective and broad partnerships, integrating tech capabilities into existing infrastructure to improve products, customer experiences, etc.	• Active participant in a broader financial ecosystem, engaging with multiple partners to create a synergistic ecosystem, enhancing overall service offering	• Leads and coordinates a financial ecosystem, offering integrated services through a network of partners
Features	• Focuses on core banking services • In-house development of technology • Limited external partnerships • Regulatory compliance is a top priority	• Partnerships in specific areas (e.g., payments, lending, banking systems) • Collaboration on product development and customer experience • Technology infrastructure modernization • Data sharing with partners	• Participation in multiple partnerships • Cocreation of products and services with partners • Shared platforms and data ecosystems • Creation of network effects	• Central role in ecosystem strategy • Building and managing a network of partners • Offering a wide range of services through partnerships • Emphasis on customer-centric ecosystems

Source: L.E.K. research and analysis

The partnership litmus test: Strategy, ecosystem and value

Finding a partner isn't enough — it's about choosing the one that can fast-track the institution's strategic goals and foster a long-term collaboration. Defining the strategy with a revamped operating model is the first step; finding a partner that complements the bank's capabilities, aligns growth pathways and enables a win-win relationship is critical to any successful partnership.

Effective partnerships fuel long-term goals. In L.E.K. Consulting's experience, any potential partnership should consider the following.

First, can the partnership help your organization meet specific objectives, and do the partner's approach and long-term goals align with these objectives? The easiest way to assess this is to determine how well the partner's offerings align with or complement the bank's core services and operations. Without this alignment, the partnership cannot reach its full potential.

The bank must also consider how a partner can help build a unique value proposition to enhance its competitive positioning. Beyond this, the partnership should reinforce the bank's existing strengths while bolstering the differentiation and resilience of new offerings and services.

Balance of power dynamics and tradeoffs are also important when selecting partners. Institutions shouldn't fall into the trap of only focusing on bigger and more established partners, as emerging players can often deliver longer-term value opportunities. Without these considerations, the partnership may only pay dividends in the short term.

Regional partnership spotlight: Live Oak Bank

"Ecosystem Collaborator"

Not only does Live Oak leverage internal investments, but multiple fintech relationships have enabled it to deliver enhanced digital banking services, more efficient workflows and improved banking experiences across end markets.

Lastly, the bank should consider sources of value, including in strategic, product, sales and distribution, and capability areas. These can diverge and converge over time. Partnerships designed to prioritize one source of value may grow into others as organizations intertwine. This increases the need to be holistic, forward-looking and flexible when defining agreements.

Balancing benefits and risks

The benefits of strategic partnerships should align with the imperatives of the bank. Any partnership should aim to improve one or more of the following:

- **Growth:** How does the partnership help diversify the product portfolio, expand customer reach or create new revenue streams?
- **Market positioning:** Can the alliance help differentiate the bank from competitors, improve brand reputation or create a competitive advantage? Can this advantage be sustained, or is it easily replicated?
- **Customer experience and affinity:** Can this partnership fill product and service gaps and elevate the customer experience? Remember, it's not just about the bank's success but also about providing easily accessible, customer-centric solutions that address their needs.
- **Operational efficiency:** Partnerships can quickly improve the bank's ability to make data-driven decisions, streamline internal processes and promote operational efficiency (e.g., streamlined Know Your Customer compliance and customer onboarding automation).

While the benefits are significant, strategic partnerships introduce risks that banks must manage carefully. For instance, misaligned goals can derail success when priorities, timelines or strategies diverge. What's more, the growing need for data sharing requires a strong third-party risk management and compliance program to reduce operational and financial risks. Without stakeholder trust and transparency, partnerships will fail.

Another risk is the potential for culture and technological integration barriers, especially for banks that may lack the digital maturity of their partners. To mitigate this, ongoing communication and shared understanding are key.

Monetizing partnerships will be challenging without carefully considering revenue models and timelines. Partnership plans need to balance different cost elements and revenue expectations.

The partnership should also be scalable. A partner may be able to accommodate the transaction volume and customer types today, but will they enable future growth and innovation?

To thrive in today's fast-evolving ecosystem, banks must move beyond the traditional "build, buy, partner" to "partner, build, buy." They can no longer deliver innovative products and services fast enough as a stand-alone entity.

Companies that fail to embrace partnerships will see competitors steal market share and customers and risk extinction. Though partners may have different priorities, the goal of any partnership is to deliver value to both sides.

When goals clash, partnerships crash: Lessons from failed bank alliances

Strategic misalignment can undermine success. Below are two recent examples of banking partnerships that failed for this reason:

- In 2019, the partnership between Apple and Goldman Sachs to launch the Apple Card should have struck gold. Apple wanted to be a more significant payment player, and Goldman Sachs was expanding its consumer lending footprint. Apple's failure to send tens of thousands of customer disputes for investigation to Goldman and Goldman's misleading payment plans forced regulatory issues with the Consumer Financial Protection Bureau and a penalty of $89 million in fines. Goldman can no longer issue credit cards without a credible plan to demonstrate compliance.
- BBVA's acquisition of Simple Bank aimed at appealing to younger, tech-savvy customers. The partnership should have skyrocketed BBVA's innovation and ability to serve the younger segment. Unfortunately, BBVA's goal of integrating Simple's capabilities into broader operations clashed with Simple's culture of innovation and independence. Misaligned culture was a key factor in this partnership's failure, underscoring the importance of understanding and respecting partner cultures in any alliance. The strategic alignment was so disjointed that when PNC acquired BBVA USA Bancshares, it shut down the digital division prior to closing the acquisition.

The building blocks of partnership success

Partnerships take work. Some bring instant success, while others fall short. Objectives and key results and key performance indicators are critical to fostering success. Defining them early ensures both sides have a clear roadmap to track progress and pivot when necessary. Open and frequent communication is critical, and a proper feedback loop enables both partners to improve processes and optimize value.

Banks should understand that not all partnerships are created equal and that a successful collaboration in the short term may not translate into long-term success. Consulting firms like L.E.K. bring a fresh, impartial view to partner evaluations and help design frameworks and governance models that amplify partnership impact. They know what works, what doesn't and the red flags to watch for. Rather than chasing quick fixes, advisors help you build a strategy for enduring profitability and success.

Strategic partnerships are a significant weapon in the race to innovate and compete. It's time for regional banks to step up, rethink old models and build alliances that drive sustainable growth and transform customer experiences.

So, why L.E.K.?

At L.E.K., we remain steadfast in the face of the rapid changes transforming the global professional services industry. While others scramble to chase downstream opportunities, we are grounded in who we are — your trusted strategy partner. Our focus isn't on short-term trends or quick fixes; we are here to guide your organization through strategic transformation, delivering thoughtful insights and actionable plans tailored to your unique challenges and goals. L.E.K. doesn't just advise; we collaborate.

Our approach centers on cocreating value with our clients to help them build sustainable competitive advantages, navigate disruption and achieve aspirations such as growth, greater share of wallet and long-term profitability. We believe in bringing the best-in-breed solutions to the table, even when they come from outside our walls, ensuring our clients have access to the most effective tools and partnerships to succeed. We recognize that stepping outside of your comfort zone — particularly through third-party partnerships — can feel daunting. But these partnerships are essential to unlocking growth, driving collective success and addressing risks with confidence. We see these opportunities as pathways to transform your business, empower your team and position your organization as a leader in a rapidly evolving marketplace.

For more information, please **contact us**.

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