



The Art of Planning an LOS Implementation Budget



LOS implementation budgets vary widely, from well under a million dollars into the hundreds of millions. The size, complexity and approach of each lending organization contributes to this variance, as does the inherent nature of the systems being implemented. And what you choose to include in your budget, beyond just the cost of the system and the vendor resources, can be a significant factor. This white paper is intended to help you think more broadly when preparing a budget for implementing an LOS.

While this piece focuses on the implementation effort itself, it should be noted that some budgets include all activities even tangentially related to the LOS and its implementation, from project inception until well after implementation. This broader perspective can account for a large variance from more focused implementation budgets.

So what should be considered when developing an LOS implementation budget? This list should help you think more comprehensively when starting your budget planning activities.

Project Team: Each organization accounts for internal resources and the time spent on a project in different manners and at a variety of labor rates. In addition to the time spent, decisions regarding if or how to account for a position that may be backfilled while the primary worker is assigned to the implementation project, should be considered for budgeting purposes.

Software: While most applications are now sold as software as a service (SaaS) operating in the Cloud, with variable monthly costs and a guaranteed minimum charge, there are still up-front costs that are often incurred. These could be for add-ons or additional functionality purchased from the vendor, or other products that are part of the overall effort. Some vendors also charge a one-time acquisition fee for licensing and administrative costs.

Infrastructure/Hardware: As noted above, most systems run in the Cloud, so internal investment in servers and other hardware is greatly reduced, but not necessarily eliminated. An assessment should be made to ensure you have the necessary setup to support the new system, including any databases that may reside onsite to feed your internal data warehouse or other reporting needs. Firewalls and authentication are other areas where additional investment may be needed to ensure connectivity and security.

System Configuration: Every system needs to be configured to have your products, users and respective roles in the system established, along with other configuration items that are system dependent. While the vendor usually plays a major role in the system setup, and you'll need to account for their fees, there is also a lot of work being completed by the lender in gathering (and sometimes even entering) the configuration data. If you're addressing internal resource costs within your budget, you'll need to account for the time anticipated for your staff to participate in this process. (Note that there is long term value in participating for the education received through the setup activity, even when the vendor has the primary responsibility).

Customization: When an LOS is selected, functionality gaps are typically identified and the customizations needed to close those gaps are documented. This gap analysis helps ensure that the lender ultimately gets all the desired functionality in their LOS implementation. The work to close those gaps can be completed by the vendor, another third party, or, depending on the system, by internal resources. The cost of customization to achieve the desired functionality should be addressed in the budget. The costs included reflect what is associated with each respective phase (if more than one is defined), as often the gap analysis is further prioritized limiting what changes will be included with the initial implementation.

Integration of Third-Party Service Providers: The potential need for renegotiating contracts or identifying new service providers with existing connectivity to the selected LOS are often overlooked in the budgeting process. This can include charges from the vendor to develop a new interface or fees paid to the service provider to establish the connectivity. Implementation is an unexpected opportunity to potentially reduce your fees for third-party services, but any contract negotiation can take time and effort, which needs to be accounted for in the budget.

Document Generation: The budget impact for setting up documents will depend greatly on how many states you're doing business in, the product mix involved and your use of custom documents. Regardless, the effort involved shouldn't be underestimated: from internal resources to gather and identify each document (and when it will be used), to the costs of a third-party document provider who will

need to create and program the respective documents within their platform. Fees for outside legal services used to verify the documents and packages may also be needed. Testing and verification of the documents is a time intensive, but critical exercise, separate from overall system testing. If documents are being managed internally, something that happens less frequently today, the level of effort and resource requirements go up significantly, which should be reflected in the budget.

Integration with Internal Services/Systems: Upstream and downstream systems may need to be integrated with the new LOS, either feeding data into and/or receiving data from the new platform. Expenses related to these ancillary systems can include additional software, system enhancements to collect or receive new data fields and the integration programming itself. Budgets may or may not include expenses from the support teams that manage those impacted systems.

Training: Training must be provided by the vendor or internal resources at different points throughout the implementation. Training encompasses not just guiding the end-user on how to use the system, but also to introduce new processes, for technical training for IT and helpdesk support, to train the testers and other types of activities. The questions of how, when, where and to whom should be considered when devising the appropriate training budget. Expenses for travel or special equipment (e.g., to create training videos or conduct webinars) should also be considered.

Testing: There are multiple levels of testing that should be considered throughout the implementation. Internal resources should conduct system and regression testing of any changes delivered from the vendor prior to turning the system over to the users for their acceptance testing. Integration testing is needed to validate connectivity with third parties, and internal testing to ensure data is flowing appropriately up and down stream within your system architecture. Similar to training, the how, when, where and whom questions should all be reflected in the budget calculations to support the testing activities.

Change Management and Communication: The activities in this area vary by organization. They become more critical as the size and diversity of the organization grows and/or the changes to current processes and staff become more significant. The respective budget allocation will grow along with the size of the organization.

Implementation Support: Provisions are needed for supporting the system at implementation to ensure a smooth transition. This could include sending project team members out to various locations to be onsite with users at the “go-live”, and/or a “war room” type setup established centrally to answer phone calls and other user questions regarding the new system. There will likely be overtime for some staff at system implementation that would need to be accounted for, as well.

Initial planning is one of the most critical activities performed during a project, as that is where you establish in detail: the scope of the project, the resources needed and the timeline. Including detailed budgeting as an important component of planning is essential, as it forces appropriate attention to be paid to the breadth of activities involved in system implementation efforts. (Indeed, reference to “implementation project” is a misnomer as it is more correctly an “implementation program” comprised of numerous projects.) Ambiguity in planning leads to budget and scope issues, resource tugs of war and finger pointing throughout the project. Proper attention to planning activities, including budget development, helps to clarify ambiguity and will help place you on the path to a successful implementation.

To learn more about the LOS or any product implementation process, including the RFP and best practices for the system demo, check out our [blog](#) and contact us if you are interested in discussing any aspect of your LOS replacement efforts.

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