



PITCHIT FINTECH STARTUPS PODCAST NO. 78-CRAIG MCLAUGHLIN

Thanks for coming back for another episode of PitchIt, a fintech conversation amongst founders, investors and friends. I'm your host, Todd Anderson, Chief Content Officer of Fintech Nexus.

What we do is take a peek behind the curtain, what motivates someone to start a company, how do investors make the right bet, what do accelerators do during and help enabling the process of growing your company, how do banks think of founders. Not to mention, we try to have some fun and what you'll see is we'll also do some special episodes, we have some new features coming so stick with us and you'll get all you need to know about the fintech startup landscape.

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Now, let's get on with the show.

(music)

Todd Anderson: On today's episode I was joined by Craig McLaughlin, Co-Founder & CEO of Finalytics. Finalytics is the first customer-centric data platform designed to help community banks and credit unions translate high-touch service on to the digital channel. You know, I find the community bank and credit union markets fascinating as they don't have the luxury of throwing money at problems so billions of dollars, you know, at technical issues like JP Morgan and Bank of America and Citi, they have to be a lot more strategic, you know, what do we need and how does it solve our technical needs.

Craig and I talked about the community bank and credit union market, how that differs from super regionals and large banks, the current economic conditions for both fintechs and the smaller FIs, can digital touch equal human touch when it comes to this high-touch environment. And I think that's a huge point that we focused a lot of time on is, do you lose anything when you go digital, raising capital, the San Francisco 49ers and a little bit about my Buffalo Bills and much, much more.

Before we get to the episode just a reminder as always, we have a lot of great offerings here at Fintech Nexus, you can also sponsor an episode of pod, you can sponsor webinars, you can also sponsor and attend one of our large scale in-person events as well. If you want to talk about that or if you possible want to come on the show, feel free to reach out to me anytime at todd@fintechnexus.com

Now, without further ado, my conversation with Craig McLaughlin, Co-Founder & CEO of Finalytics. I hope you all enjoy the show.

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Hey, Craig, welcome to the podcast, how are you?

Craig McLaughlin: Thank you, Todd, I appreciate your having me here, thank you.

Todd: Of course. So, I'd like to kick off, tell the audience a little bit about yourself, you know, obviously before starting your current venture kind of what your road's been to this point.

Craig: So, for a long time I've run a digital consultancy that worked with all kinds of companies, we're based here in Silicon, LA by doing digital strategy and user experience. Actually, my background originally was focused on...I was an engineer long enough to realize that there were dramatically better engineers out there in the world than me (Todd laughs) and I should work for them than trying to do the code myself and that's what I did.

Todd: So, what brought you to the current venture, Finalytics, and, you know, kind of what brought you to the point of wanting to become a founder and entrepreneur as well because, you know, there's various motivations when I do these conversations of kind of why people want to start a company, whether they found a problem or they were kind of always on that path and it was just a matter of time of when they got there. Where do you fall in that category?

Craig: You know, it's funny, you asked the question. So, I always wanted to found and run a company, that's always kind of what I was most interested in and when I wasn't doing that I wanted to go and solve interesting problems for companies. One of my first positions was working for somebody in research & development and so was looking at new technologies and ideating on how those technologies could be applied inside of companies as a whole. But what I was really longing for at the end of that period of time was real-world application of those solutions and so what's exciting was how can you bring together, you know, digital solutions that integrated data to be able to then drive their outcomes.

And so, for me, the more work that we did consulting with financial services companies, the more interesting that problem kind of became because financial services is kind of unique in terms of, as it related to digital, because you really all of the means of connection with the consumer at your disposal in terms of influencing the outcome. That's a very personal relationship, right, the relationship somebody has with their money isit isn't really between oftentimes the customer and the institution, it's really between the customer and their money and so it's an intimate relationship to personal relationship and so finding ways to make that experience more relevant and more meaningful for customers is super interesting. Also, when you consider what incumbent financial services organizations are trying to do in terms of kind of manifesting their offline value proposition into the digital channel, the ability to kind of maintain the offline value prop of high-touch, high-service really requires the use of data in smart ways on an individual basis.

And so, there's so much focus that can be put in there that it really can't be done so much manually, you have to find ways to be able to do that at scale. And so, I think that was kind of...for us, that was the big epiphany moment for Finalytics was hey, we know every incumbent financial services

organization is going to need to get this right because it's on the roadmap to their destiny. And so, then there's the analysis of how might they solve that, is it something that's solved inside of an existing solution and when you look at those tool sets we didn't see them as being as viable because they were really, you know, built to solve other things. If you wanted to do this right, you really had to do it on a solve process basis.

Todd: As we get a little bit further into exactly who you guys are serving and the various products that you have, is the name as obvious as it looks, Finalytics?

Craig: Yeah. You know, I got started, honestly, it was the easiest decision to us, it was like we knew we wanted to focus on financial services and we knew it was going to be related to data analytics and (inaudible) analytics and then finally we knew we were going to use machine learning and AI and all that combined and the domain was also available.

Todd: There you go.

Craig: That gave the name pretty easy to be able to go out and get a trademark.

Todd: So, tell us a little bit more exactly about, you know, who's the ultimate target and what are the various products that you guys have?

Craig: So, the target is, in the United States there's about 10,000 both community financial institutions and credit unions and that includes the biggest ones, you know, like the Chases, the BofAs and the Citis, but they're really kind of not the lion's share, right, they're a tiny fraction. What's interesting is that they control the vast majority of the assets and so, you know, the top 10 financial institutions control 90+% of the total invested assets in all financial institutions in the United States.

But what that does is it opened up the door to this opportunity for kind of a long tail. All these institutions also need to deliver great digital experiences at a smaller scale and so, you know, anywhere from the super regionals at a couple of billion dollars all the way down to the small, you know, couple of hundred million dollars small credit unions is kind of the total addressable market that we're focused on.

Todd: You know, when doing research on this obviously I saw on your website and going through your LinkedIn, what not, and on the website you show the integrations that you guys have and I noticed, I'm pretty sure I remember correctly, all of them are basically cloud-based solutions. You know, how much does moving to a cloud-based technology or technologies, A) how different is that for traditional financial institutions and B) how much more potential can there be if they go in this direction versus what I assume a lot of, especially the older, maybe smaller institutions, are still operating on which is not cloud-based technologies?

Craig: You're right. I think it's kind of a matter of time and I think that's part of why we architected our platform in the way that we did is that when you look at what the mega banks are doing, eight years ago they would look at, you know, the cloud solutions with concern around security and a whole myriad of other factors. But fast forward to today, they don't look at it that way anymore, they've really evolved and I think the same thing was true if you think 20 years ago of self-work automation platforms

or tool sets, they all used to be on-prem and you know, there's concern from the CEOs, GEs saying he'd never let his data be off-prem, that would be a big risk.

But I think in today's world the idea that you're going to buy hardware, hire teams to be able to manage them when they could be delivered at such a more cost-effective scale via this cloud platform, it's really kind of, it's inevitable, I think. I think we're all going to end up there and so I think it taking a little bit of time, but I think it's trying to turn a little bit particularly with community financial institutions, it's taking them some time, but they're going to turn around the corner on that eventually, everyone will do it eventually.

Todd: What would you estimate today in terms of...let's focus more on the smaller side, not obviously the Chases of the world, if you go to maybe the regional and the smaller community banks and credit unions, are half of them on the cloud-based, 25% today, where do you think it is today?

Craig: I would say, it's a little bit isolated and I think that's one of the challenges of the category is you're really siloed divisions inside of financial services institutions that have some autonomy and they're able to go and buy their own software, but I would say, they're probably in the 25%. I think there's differences on what you're describing, right. There's one off solutions like, you know, tools sets for taking in, for example, that you'd pretty easily be able to get approved to run off-site. But then if it's something that's a little bit more mainstream, it requires more scrutiny so I think that takes a little bit more time so probably my guess is probably around a quarter.

Todd: What would you say, you know, in talking to a lot of these institutions there are some common mistakes that these firms are still making today when it comes to either, you know, digital-based technologies or some of the stuff that you guys focus on which is a lot of the data and the focus on analytics. Are banks still making, you know, some common mistakes that you guys are seeing?

Craig: I think the primary is they're just not using the data that they have and when you think about the three types of institutions around this category, the megas and you've got the fintechs and you've got those other community banking orientation, whether that's a super regional or a credit union or an average size community institution, the fintechs are really great at using data, it's their DNA, right. So, every step they can take towards building an experience that is better optimized to drive a better conversion they are going to take because they have to be hands-on, right, they have to get those things right.

And the megas have so much money, right, they can spend and innovate kind of in ways that are beyond what anybody else can really kind of end up to be able to do and in the community financial services kind of segment, I think their challenge is making the right choices and bringing the right partners in order to be able to get that right. So, I think they know they have to partner, there's perhaps is a speed to partner in question or how they're going to do that, what problems they are going to solve, but I think they're all going to have to come around as it relates to them.

Todd: You also referenced on your website about, you know, the smaller base institutions, the credit unions, community banks, what they're known for is that high-touch, I mean, it's different from the large banks who have, you know, 50, 60 million customers, it's hard to have high-touch with all those many millions of customers. But can you get the same level of high-touch with digital and do these

institutions need to get to that same level with digital or am I thinking of this in the wrong context when it comes to high-touch and what they've kind of made their name on.

Craig: You know, I don't think you're thinking about it incorrectly. I mean, I'm thinking about the opportunity that our clients are seeing and so, you know, I'll take a step back and then the answer to your question around this data. The reason why we built an (inaudible) is that we work with credit union and bank leadership teams long enough to determine how to build a great digital experience for them, that was a lot of kind of strategic work.

We bring in each of their individual departmental executives and ask about what their offline goals and directions are with the goal of generating kind of this comprehensive, coordinated digital strategy that the organization can truly buy into that represented all the departments' needs. And also, we go out talk to customers and say hey, we're building a strategy, we want to make sure that we understand why people like you bank here, can you talk to us about what that is.

We do interviews and what we find is that the customers will all tell stories about high-touch services, they'd say, you know, I had a problem and I went into a branch and they did this great thing for me, that was a special service. They understood a little bit about their beginnings, some great advice and those were the reasons why I bank with this institution, and it was pretty consistent. You know, whether you were having that interview in Jacksonville, Florida or in Upstate New York or in Orange County, it was pretty much the same answer.

The reason why people bank with community banks is because of the high-touch experience and when you talk to the executives and you say, you know, what do you stand for, what are you about, what's the brand, why do people bank here, they would say the same thing. They all said, well, people bank with us because we offer this really great high-touch service and they will also tell you stories about how they would go above and beyond.

So, now when you say, the world has changed, all these services now need to be delivered digitally, how are you going to take that offline value proposition of high-touch service and manifest it into the digital channel. There's only a few ways of being able to do that except for those touch points, right, so what you have at your disposal to inform these high-touch and personalized experience digitally is data, right. And so, that's where data on user behavior, data on transactions, whatever data you have that you can act on, if you can feed that into AI and machine learning to then generate associations and connections and understand similar behavior.

And just like on Amazon, right, so people that were looking for this also bought this other thing by doing that at another level with regard to actual transaction data inside of a customer's account is really the keys to the kingdom to getting that right, right. It's all from those insights and saying hey, we noticed this thing about you, in fact, you might be interested in that so those are those kinds of moments that you can deliver digitally. If you're not doing that, you're kind of delivering a homogenous experience to every visitor.

Todd: You know, in hearing you talk about that, it sounds like there's a bit of a misnomer there. There's technology involved, it can't be as high-touch or it can't be as close as say interaction between me and you individually. But if you have the right information, the right data and offer service that solve their

problem/problems that ultimately can equal that in-person experience as long as you're speaking to that person as Craig versus a group of people or an offer that might go to, you know, hundreds of thousands of people, it's about you and your experience.

Craig: Yeah. We call it a "segment of one" so it's informed by you and your data. In fact, I actually think if you think about what a branch person can effectively do in a 2.5 minute-conversation, it's really hard for them to be able to beat the power of data and AI in terms of understanding what that user is interested in. And if you fed in enough of the available data, I think it can actually be better and offering a better experience to the consumer and really drive that kind of high-touch affinity relationship.

Todd: You know, we're kind of in this interesting time right now when it comes to, you know, the smaller financial institution as well as fintechs. So, fintechs have kind of made these strides, but at the same time, the last year you saw depressed valuations, you're getting lots of layoffs and it felt like we were going towards a period of fintechs were really going encroach upon these community-based and credit union institutions. But now, it feels like that's kind of been stopped a little bit by the market conditions.

You know, when you're talking to these institutions do you get a sense of, you know, they're worried about fintechs, the market has changed, what's the dynamic that kind of fintech has changed over the years and do they see fintechs as a threat, a partner, an enabler, kind of how do they view the fintech market right now?

Craig: I think it's kind of an even flow, I would say it's a cycle over time. I think very early on at the beginning of these fintechs, the incumbents looked at fintechs as kind of a novelty and they weren't threatened because they can look and say, it's really a small amount of assets maybe we're seeing leave us and go somewhere else. I think as that number grew, I think that threat became a little bit more real and a little bit more concerned and then when they looked in the mirror and said, what do we need to do differently to remain relevant to the customers we already have and win the right new ones. They started to look at kind of the basics and they said, well, you know, clearly we need to look at the new online banking platform or a new core, whatever those tool sets are that they would then go and deploy, but I think it's gone beyond that now.

They're realizing that the opportunity is a little bit deeper than that and how do we use digital to be able to not just maintain what you have, but then also to go and grow that next generation of customers and so I think that with that there's a lot of learning going on. I don't see so much, I don't think the investment environment as it relates to fintechs is really affecting so much their perception inside of incumbents around their relative threat, I think it's another service, right, and so I think the service remains competitive, whether or not, you know, their valuation was half of what it was last year.

Todd: You think there could be an opportunity for some of these, you know, firms to maybe buy or purchase parts of fintechs cheap that can maybe help them leap forward a little bit in an environment that might allow them to versus maybe a year or two from now there might be bounce back in fintech and that opportunity just doesn't present as maybe, you know, as advantageous as it would today?

Craig: Yeah. I definitely think that's an investment option, I think it does come down to the strategy of the institution. I don't know how...I couldn't speak to my experience that there's a huge amount of appetite for that given the macro economic environment that the incumbents are facing on their own, right.

Todd: Yeah, that's true.

Craig: I mean there are ones there that are kind of, you know, venture-related, they're trying to make sure that they hand down the hatchets and they're ready to get through a tough environment, these are your banks, they know how to manage risk, right. So, they're really good at trying to, you know, address risk and I think they're learning lessons and they're saying, huh, that's interesting, well, we might want to do that. When I think back to the times where banks were more acquisitive in that capacity, it tended to be for particular, you know, what is the business data they didn't have, whether that was student lending or something like that they were going to go after, I wouldn't anticipate a ton of M&A from the incumbents of fintechs.

If anything, I would imagine there'd be a lot of learning from the, you know, vanguards, right, what are they doing well, what are they doing poorly, how might that relate to our business. Increasingly, the incumbents will develop competencies in terms of having their digital right. Even though it's slow, imagine it's probably five years behind what the fintechs are doing, but, you know, I think as fintechs innovate, it will trickle down.

Todd: What's the biggest lesson you've learned about Finalytics since you guys have launched or one of the biggest lessons.

Craig: It takes more time, I think, than you anticipate to do certain things. It can be challenging to get a company and watch in this category, I think it takes more time, it takes more time than I would have guessed. That would be my lesson learned. I would just expect that maybe, you know, if you are looking or thinking that this is something that can be built in a year, maybe it's going to take two years, that kind of analysis and plan for that and make sure you're the lead resource in order to navigate that window.

Todd: Do you have a biggest regret or regrets along the way?

Craig: I don't know, I mean, so I don't have...I would say, in Finalytics I don't really have that, but in previous companies I think the biggest lesson learned is that if you live and die, I'll culturally say, you know, strategy, culture and strategy for breakfast and I think that's totally true, you know, you're only as good as your team. If you focus on hiring the (inaudible), the very best guys to find to do a job and you kind of ignore maybe some red flags on the way that they work with others and you're willing to take a little bit of friction in exchange for, you know, a higher caliber, I think by risking that you lose a lot.

In my experience, it all comes down to a team that can come together and work well together until....it's about communication, it's about taking care of your people, it's about being direct, creating a framework where everybody can thrive and shine, I think that's the most important, I would say. I always laugh when being asked the question originally, Todd, about regrets and I never understand people who say they have no regrets, it doesn't make sense, it doesn't apply to me. But certainly, I

think that as a category of an opportunity to do something different, I think there's a huge opportunity to be able to get that right and really focus on your people, on team building, bringing people together with a common cause and making sure it's a rewarding environment for everybody.

Todd: Best or one of the best pieces of advice that you've received, thus far.

Craig: I think I would go back to the comment around, you know, culture eat strategy for breakfast. I think that's consistently the lesson learned there, it's really about team.

Todd: Speaking about team, tell us a little bit more about the team around you, how big is the team today, what does the team look like, you know, in terms of types of roles and what's the split, engineering and strategy and sales. What does everyone look like around you and how big is the team today.

Craig: Yeah. So, our team is probably 20 to 30 people at this point, still relatively small, and the nice thing about COVID is that while we're here physically in San Francisco Bay Area we're now able to recruit people from all around the country, all over the world. So, we've got people in New Orleans, in Seattle, in New Jersey, Missouri, Ukraine, Mexico, Chile, I mean, just kind of all across the board and we're able to get the right people. Bringing everybody together into regular sessions has proven to be really, really effective and organizing everybody, whether that's just a quick stand-up meeting daily or longer kind of planning sessions throughout the week, I think that's been key.

We're relatively small in sales & marketing, but we've got some good team members that are on contract that are just stellar at what they do and the lines that we're focusing on is making sure every client that we work with is super successful from day one in their goal and references and really investing in data and AI.

Todd: Have you guys raised outside capital from investors and if you have, you know, what does that process look like and what did you learn during that investment kind of round or process.

Craig: We looked at it, I mean, we kind of went down that road and what we ended up choosing to do is to be really selective. There were a few organizations that we thought would bring more than money and they would be able to help us in key ways and we thought, you know, what we consider to be the most critical success factors in our journey, where did we think we would need the most help and then we thought these people are really interesting, if they will participate with us then that would probably be a force multiplier. And ultimately, we just decided that it would be better to focus on just building the product at this point and not going down that other road. Never say never, but at this point we're really focused on just achieving goals we have laid out in front of us so we're holding back on that, for now.

Todd: You think sometimes founders make a mistake in that they view it as too much of a money transaction versus what you kind of referenced there which was, you know, if we're going to find the right partner it needs to be holistic, hey, they can help us with this or they can help us be an additive part of the team or an advisor to this aspect of our business versus here's a check, now tell me in 6 months, 12 months and 18 months how are you going to meet goal 1, goal 2, goal 3 so we can worry about checks 2, 3, 4 and 5 then what.

Craig: Yeah. I don't know, I think I'm not...In that regard, I think there's probably a way in the (inaudible), I mean, I think that there's advantages to somebody that is, you know, driving you towards a financial outcome that everybody is focused on trying to achieve. There are disadvantages though when that becomes the only objective and perhaps begins to take over other goals and objectives. And so, because I talked to those that are more in kind of the VC space, some would say hey, Craig, isn't it great you were able to go through and do it this way and others would say, you would need more resources in order to be like that and I think it's hard to answer that question.

Certainly, from a customer group perspective, I think customers get a lot more value from the approach that we're taking which is, you know, we live or die based on their satisfaction, right, so everybody on the team, from the top down, has to be available anytime to make sure that the clients are getting exactly what they need which is our primary focus.

Todd: We have just a few minutes left, one final question before we get to some fun questions to end. We have a lot of other founders that listen to the show, if you had one piece of advice to offer them other than obviously the culture one, what would it be?

Craig: You know, I read a great book and I forget who said it, but he talked about EQ and how critical that was in the journey. I think you really have to make sure that, you know, as a startup you represent the kind of cornerstone of the organization and your DNA should leave an imprint on how everyone else in the organization operates. And so, as a result making sure that your showing up as your best self is crucial, it's critical. If there's any cracks in the founding team or any cracks outside of that, they get 9 to 5 really fast and so you've got to make sure you show up strong and you've got your head on right. I think that's one bit of advice I'd give is really, really be focused.

Todd: A few final fun questions. Do you have a favorite book or the last book that you read?

Craig: Right now, I'm reading this book "The End of the World is Just Beginning" by Peter Zeihan, it's an analysis of de-globalization, the associated journey of each country it would face in the context of their transition and specifically how the United States compares against China in that journey and what that means to the super powers of the world potentially 10, 20, 100 years from now. It's super, super fascinating, it's pretty remarkable, this guy is... really impressive analysis.

Todd: You mentioned, obviously, come in focused, is there an activity a sport, meditation, what do you do to unwind, step away and ensure that you come as your best self?

Craig: You know, I always put on my list of To Do's is the Headspace app to go and meditate, I'm never am able to nail that. I pray consistently how to use running as the best outlet. There are times when I'm religious and consistent and regular about running 5 miles three times a week. That seems to be the kind of the cornerstone for me

Todd: Do you have a, other than running, a favorite sport or sport teams that you root for?

Craig: Right now, we're all pretty excited about the 49ers (garbled) our progress so we're excited about that, that's our big point of enthusiasm that's why I'm looking forward to Saturday.

Todd: Well, maybe my Bills will meet your 49ers in the Super Bowl, we'll see.

Eddie: I think there's a pretty good chance.

Todd: A fairly good chance as far as challenges and throw it to the other teams. Favorite vacation spot?

Craig: The big island of Hawaii, there's a spot in-between, right where you find kind of a, about 10 minutes away on the one side there's a kind of beach hotel which Steve Jobs used to go and stay. On the other side, there's a development that Michael Dell developed so it's an interesting kind of juxtaposition between those spots. But it's just the most beautiful location site, we have friends who have a place there, we love taking advantage of it and it's absolutely gorgeous.

Todd: Final question is biggest inspiration in life, what inspires you?

Craig: You know, we're talking about the Bills and 49ers, I'm a huge fan of the underdog, I love to see a pretty young man who's unproven, young and he just goes for it, aligns the team together around a common goal. So, I'd love to see the underdog pull it off, it doesn't mean that I'm disappointed to see the Buccaneers performance this past week, but I'd love to see the underdog win.

Todd: Well, Craig, I appreciate you taking out a few minutes to chat with me, if someone wanted to reach out, find you or find Finalytics, how do they do so?

Craig: It's easier for me....just email me at craig@finalytics.ai and if you'd like to learn more about our platform, go to our website, we've connected it all up and we can schedule and book a demo. We'll be happy to jump on and walk you through how we might be able to help you.

Todd: Alright, sounds good, thanks so much, Craig, appreciate the time and continued success to you and the team.

Craig: Thanks very much, Todd, appreciate it, thanks for having me.

Todd: Yeah, thank you,