



From Another World—New Competitors and the Need to Adapt

The threat of extinction is with us always. Potential extinction is a constant threat to mortgage originators and their technology vendors. According to oft-quoted and little-understood writings of Charles Darwin, extinction weeds out the less-fit species among us.

The Darwinian principles of failure and extinction now are showing up in popular business management books. Business writers are looking for the next intellectual fad to help sell their books. They are stretching a tenuous connection between business planning and environmental causes of failure.

There is a phrase that captures the efforts of business writers to adapt scientific principles to sectors not meant to be included. Such literary adaptation is often called “café science.” Their work, strictly speaking, is not hard science at all. Darwin applied to businesses is most entertaining when discussed over a chocolate macadamia nut latte at the Caribou Coffee Co.

An interesting if less-than-cheery addition to the café science library is *Why Most Things Fail: Evolution, Extinction and Economics*, by Paul Ormerod (Pantheon). Ormerod is an economist living and working in the United Kingdom. For several years, he was head of the Economic Assessment Unit at *The Economist*. His bent is to apply the principles of biology to economic and business behavior.

In *Why Most Things Fail*, Ormerod offers up a bit of gristle on which to chew: “The Iron Law of Failure extends from the world of biology into human activities, into social and economic organisations. The precise mathematical relationship [that] describes the link between the frequency and size of the extinction of companies, for example, is virtually identical to that which describes the extinction of biological species in the fossil record. Only the time-scales differ,” he writes.

“Failure is all around us,” he writes. “Failure is pervasive. Failure is everywhere, across time, across place and across different aspects of life; 99.99 percent of all biological species that have ever existed are now extinct. More than 10 percent of all the com-

panies in America disappear each year.”

Adaptation is the key to survival in business as it is in life. The weak fall by the wayside. Ormerod points out that only 19 of 100 global companies in 1912 were still on the list by 1995 (his last count). In the business world, extinction is never far away.

Dave Matthews, chief technology officer of the Federal Home Loan Bank of Chicago and well-known mortgage technology expert, sees mortgage technology suffering from inbred thinking. The mettle of mortgage technology would be strengthened with ideas from outside of the mortgage industry.

Matthews says, “We could focus on ERP [enterprise resource planning], retail or manufacturing platforms. These combine modern management theory with vertical systems integration. Their technology platforms are designed to support a manufacturing process from design through production, and in certain circumstances, sales and delivery.”

Matthews concludes with an almost philosophical question: “Think for a moment. What can we learn from a company like Wal-Mart?”

Adaptation of technology vendors

Given Ormerod’s view of the business world, is there a risk that conventional mortgage technology vendors face extinction? What could be so toxic in the market that it would threaten long-standing and traditional competitors with extinction?

Ormerod’s interpretation of Darwin suggests that technology vendors may go extinct if either of two critical changes occurs:

■ *Vendors evolve to become overly specialized.* They become unable to adapt to changes in their operating environment. Species (vendors) will disappear in the order of their sensitivity to a particular environmental factor, with the least tolerant ones going extinct first.

■ *Exotic competitors disrupt the ecological (market) balance.* When introduced,

companies with exotic approaches put the native species in jeopardy. The existing companies must merge with the exotic, transform or be pushed out of the market.

Long-lived technology companies are those that self-renew over time. They are resilient. They successfully adapt to diverse and turbulent market conditions. Otherwise,

free-market capitalism roots out failure and unceremoniously extinguishes the offending organizations.

In biology, one important way adaptation occurs is through anagenesis. This occurs when a population of organisms evolves into something else: a hybrid.

Vendor anagenesis may occur when entrepreneurs with exotic technology backgrounds enter a new market (i.e., mortgage). By adapting their unique knowledge to mortgage applications, they transform themselves into a new and stronger species of technology vendor. The newly born hybrid vendor is often stronger than the conventional vendor. Having a large financial and human capital commitment to conventional business and technology platforms, incumbent companies cannot adapt easily to compete with the new entrants.

Exotic entrants to the mortgage industry

There has been a steady stream of technologists from business sectors quite different from the mortgage industry. The exotic entrants are evolving and may hold sway over the development of mortgage technology.

For instance, in 1998 Dain Ehring and Rob Carpenter came from computer vendor Sun Microsystems, Santa Clara, California, to form San Mateo, California-based Dorado Corporation, where Ehring is chief executive officer and Carpenter chief technology officer. Dorado used its knowledge of service-oriented architecture (SOA) to change the flow of a mortgage origination. Dorado built

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a lending platform that unifies all loan channels, products, services, personnel, customers and fulfillment partners through a single point of sale.

Dorado's Ehring says, "Coming from the high-tech sector into this segment, we can enforce the idea of using technology as a competitive weapon or strategic tool to gain market share. More importantly, we also understand the responsibilities of delivering commercial-grade software and the need for constant investment in research and development."

In 2002, Jerome Coonen, chief executive officer, and Roy Martin, vice president of sales and marketing, founded Xetus Corporation, Mountain View, California. They brought backgrounds from Apple Computer Inc., Cupertino, California, and Hewlett-Packard Co., Palo Alto, California, to build a collaborative processing approach to mortgage lending.

Martin points out that "Coming from outside the industry, we could take a fresh look at loan processes. We had no preconceptions, nor did we face short-term ROI [return on investment] constraints. From the beginning we sought to understand and solve the global loan processing problems."

Martin says their four-year journey investigating the mortgage business has led to XetusOne. He says, "We believe that XetusOne is built with unique Web-delivered applications. It is the first end-to-end, real-time, collaborative, secure, paperless LOS [loan origination system]."

MacDonald Dettwiler & Associates Ltd. (MDA), Richmond, British Columbia, was spun out of Orbital Sciences Corporation, Vienna, Virginia, in 2000. Orbital and MDA are space-technology companies. MDA has extended its core satellite imaging and mapping capabilities to the building of a substantial stake in the property information business. This last company is an interesting case in point.

MDA

MacDonald Dettwiler & Associates and its technology skills is an exotic entrant to the mortgage technology business. While serving the

mortgage industry, MDA remains very much a space and information technology (IT) hybrid.

MDA is an \$800 million multinational company. It employs more than 2,500 people through offices in the United States, the United Kingdom and Canada. The company's common shares trade on the Toronto Stock Exchange under the symbol "MDA."

MDA provides advanced information solutions that capture and process vast amounts of data, produce essential information and improve the decision-making and operational performance of business and government organizations worldwide. It is this package of skills that leads MDA to the mortgage industry.

MDA has focused on land- and property-related information solutions for two major market sectors—the financial-services sector and the surveillance and intelligence sector. MDA's strength in these markets is its ability to manage and deliver complex operational systems, tailored information services and electronic information products.

MDA sees itself as an information company. Its

competitive strength comes from its long experience along the entire information value chain (data collection and management to information analytics).

Under the guidance of Jim Thornton, general manager of MDA's U.S. financial services, and John Geddes, vice president of business development, MDA provides one of the most complete online services for textual and visual real estate property information. For use with residential and commercial real estate property transactions, MDA provides information on land title/ownership and encumbrances; asset valuation and taxation; imagery, maps and other geographic information; and local-area demographic data. Through satellite and aerial image, MDA offers an integrated digital archive of visual land information, such as up-to-date imagery, maps, lot plans and related data.

In the real estate-services sector, MDA provides electronic legal and asset information about individual properties to lawyers, lenders, appraisers, real estate brokers and other businesses involved in real

estate-related transactions.

Thornton maintains, "We are creating a unique animal within the property information and analysis space. Our goal is to create unique value with best-in-breed technology and business processes."

Thornton and Geddes are melding MDA's truly high-technology heritage to a series of corporate acquisitions. The acquisitions give MDA strong entry into the ecology of mortgage banking.

In 2000, MDA acquired DataQuick from Little Rock, Arkansas-based Acxiom Corporation. DataQuick specializes in providing property and land information to the U.S. real estate market (including realty agents, lenders, appraisers, etc.).

In 2004, MDA acquired privately held Marshall & Swift/Boeckh LLC (MS/B), Los Angeles. MS/B is a leading supplier of property information and valuation solutions to the U.S. property-insurance sector.

And in 2006, MDA acquired MindBox LLC, Greenbrae, California. MindBox is a venerable supplier of rules-based and decision technologies to the mortgage industry.

The acquisitions add a practical dimension to the hybridizing of MDA.

Daniel E. Friedmann, MDA's president and chief executive officer, says about acquiring MindBox: "It significantly expands the company's capability to deliver information solutions that include an advanced decisioning component. And it increases the company's presence in the U.S. lender market."

Thornton says, "Not only does it add a significant and promising dimension to our lending-services business, it also provides the foundation to expand into similar offerings in our insurance-services business."

MacDonald Dettwiler is a prime example of an exotic species of technology provider finding its way into the mortgage industry. And its strategy depicts how an exotic entity has a novel view of the industry and competes in a whole new way.

But there is more to the adaptation story. "In the end," points out Sig Anderman, president and chief executive officer of Ellie Mae Inc., Dublin, California, "survival comes from anticipating customer needs, not just reacting to them."

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