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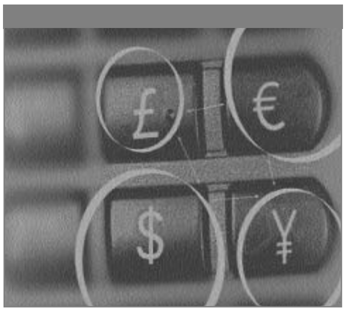

FINANCE

WINNING NEW PRODUCT DEVELOPMENT STRATEGIES IN FINANCIAL SERVICES

Building a profitable culture for NPD success

By Dr. Charles Beard and Sarah Dougan

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Printed and bound in Great Britain by MBA Group Limited, MBA House, Garman Road, London N17 0HW. www.mba-group.com

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- A recent BCG survey revealed that although innovation is a top three priority for 62% of financial services companies, 61% of managers are not satisfied with the return on their innovation investments. At the same time 62% plan on increasing those investments.

- Tesco's efforts to make its home grocery service more accessible to blind customers has resulted in revenue in excess of £13 million per annum, revenue that was unavailable to the company when the website was inaccessible to blind customers.

- Companies that build and sustain competitive advantage have an integrated process in place designed to generate new ideas, evaluate them, take the best ones forward and manage new launches to achieve profitability.

Critical components of success: the process factors

- Recent benchmarking studies have revealed that the more successful companies do, indeed, do things differently. At the business unit (BU) level, these organisations have been found to master three critical success factors that drive the performance of new services. These three drivers are strategy, resource commitment, and process.

- A successful innovation process involving IT Integration between Royal Bank of Scotland and NatWest is contributing more than £400 million in annual recurring cost savings.

- Close to 60% of the service organisations that are members of the Product Development Management Association (PDMA) identify themselves as having either no product development process or an informal approach. Similar results are reported for financial institutions in the United Kingdom, where less than 45% of the companies have written guidelines for their development processes.

- There are three cornerstones for effective new service development to consider: **strategy**, **resources**, and **process**.

- *Strategy,* means tying new service development to the corporate strategy and goals, identifying areas of focus for service development, taking a long-term thrust, and ensuring that the innovation strategy is clearly communicated throughout the company.

- *Resource allocation* is another familiar success factor that means having enough of the right people and adequate development financing in place.

- *Process* – more specifically, a high quality development process that guides innovations from idea to launch – is less recognised as a critical success factor. Ironically, of the three, it is process – its nature and quality – that has the strongest impact on the business's new service performance. This chapter explores the new service development process and the ingredients that the top performers have in common.

How to develop NPD for financial services

- Depository banking products are on the whole a lot quicker to develop than credit-based products

- There are four types of innovation for financial services: new to company innovations; product innovation; market innovation and process innovations or product modifications.

- Different types of innovation require different treatment, both in terms of the strategy needed to support them, and the way in which the strategy is implemented. The nature of these innovations and how they are developed and marketed are considered

- Research consistently shows that a successful new product has a good synergy between the product and the target market. This involves marketing research, identifying the critical product characteristics that will fit the market and making sure those characteristics are incorporated and communicated to the market correctly

- Financial performance for new products is determined by six key factors: marketing synergy; a market driven new product process; effective marketing communication; customer service; managerial and financial synergy and launch preparation.

Creating marketing synergy

- The majority of survey respondents said they had insufficient resources for marketing research.

- 100% of all respondents who engaged in an intensive planning stage for new product development also cited complete success in achieving their strategic objectives, while only 69% of those who engaged in a low intensity planning stage cited success on the same measure.

- Banks have to re-think themselves as consumer brands and become aware of how customers experience their services.

- Projects that feature solid up-front homework more than double their success rates from 39% to 82%.

- Many project failures arise from deficiencies in the pre-development stages as insufficient time and money is spent on the up-front tasks in the typical new service.

The prevailing paradigm is this: generate an idea, do a minimum of pre-work, and move it directly to development.

Creating and managing a market-driven NPD process

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Marketing communications for new products

- There are two special problems associated with intangibility for financial services: in making the product difficult to grasp mentally, it compounds the already complex consumer decision-making process when purchasing. Second, it means that products cannot be displayed or demonstrated to customers, posing problems in the advertising and trial of products.

- Brand building in the finance industry is essential to ensure survival. Why? The successful entry of powerful non-financial brands into the market, capitalising on their strong brand identities and deep customer relationships, is forcing financial institutions to examine the worth of their own brands and the coherence of their brand strategies.

- Financial brands are unsuccessful because they are not placed high on the agenda, fail to embrace change, fail to involve staff in key decisions and do not have a significant point of difference from competitors.

- Using a new product for brand building works best when there is a dominant competitor

- Using a new product to improve positioning works best when customers' needs are fairly static.

Differentiating between winning and losing new financial services products

- The competitive advantage that works best for increasing sales volumes and profitability is doing something customers could not do before (newness). For creating strategic opportunities or achieving strategic objectives, delivering better quality or value for money work best.

- Around 75% of all new financial products take more than six months to develop.

- The most common strategic objective is that of improving revenue or developing new income streams.

- Most new products are developed with a competitive advantage based upon offering unique features, attributes or benefits to the customer.

- The greatest perceived resource deficiency in developing new financial products is with marketing research skills. Lowest deficiencies are in management skills, funding and customer support.

- The NPD process for financial product may be improved by running a process that screens the development of new products and also runs a test market study.

Chapter 1

Innovation and NPD in Financial Services Overview

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Summary

- A recent global study by A.T. Kearney and the Tower Group revealed that many bankers view retail innovation as a costly effort with few early mover advantages, since competitors can easily replicate new products and services.
- A recent BCG survey revealed that although innovation is a top three priority for 62% of financial services companies, 61% of managers are not satisfied with the return on their innovation investments. At the same time 62% plan on increasing those investments.
- Tesco's efforts to make its home grocery service more accessible to blind customers has resulted in revenue in excess of £13 million per annum, revenue that was unavailable to the company when the website was inaccessible to blind customers.
- Companies that build and sustain competitive advantage have an integrated process in place designed to generate new ideas, evaluate them, take the best ones forward and manage new launches to achieve profitability.

Introduction

The rise of relationship management and the quest for customer retention has forced many firms to acknowledge that customer care and excellent service is not the remit of one department; rather, it is expected to operate as a guiding principle throughout the company. Similarly, innovation must be managed holistically: with integrated processes that are designed to generate new ideas, evaluate them, take the best ones forward and manage new launches to achieve profitability. Unfortunately, this has proved elusive for many financial services firms.

> *"In Italy for 30 years under the Borgias they had warfare, terror, murder and bloodshed, but they produced Michelangelo, Leonardo Da Vinci and the Renaissance. In Switzerland they had brotherly love, five hundred years of democracy and peace, and what did they produce? The Cuckoo Clock".*
>
> ***Quote taken from film entitled, "The Third Man", directed by Carol Reed (1949), screenplay by Graham Green.***

From reading the business press and talking to managers, it seems that many in business regard innovation and creativity as a mysterious process that is confined to certain sectors, such as the Arts or in advertising agencies. The dangers of this view are obvious. The combined effects of technology advancements, deregulation, more demanding consumers and competition from non-traditional sources are increasing the pressure to innovate. While manufacturers have long recognised the need for effective product development as a competitive weapon, many in the finance sector lack the rigorous, disciplined approach necessary to pick the right projects and encourage them to come to fruition.

When the topic of innovation was discussed at a recent financial services conference, participants expressed concern that it is difficult in financial services. Furthermore, it was stated that there is little scope for novelty in a saturated market.[i]

One of the presenters then asked participants if they had used a credit card on a regular basis in the last year. Two thirds of the audience raised their hands and admitted that the credit card offered some form of value. In some cases the card was linked to a hotel, retail chain or offered special discounts. Regardless of the specific details of the product, the card provider had created something new and valuable in a saturated market.

[i] 'Profitable Innovation in Financial Services', The Boston Consulting Group, 2004

While this small example reveals that opportunities to innovate and create value are still available, even in saturated markets, the good news has not yet reached many in the finance sector. A recent global study by A.T. Kearney and the Tower Group revealed that many bankers view retail innovation as a costly effort with few early mover advantages, since competitors can easily replicate new products and services. Many of the respondents indicated that if given $100 to spend on enhancing profitability, they would spend approximately 60% on delivery solutions, including branch, ATM and Internet banking enhancements, 20% on preferential product pricing and the remaining 20% on new product development. [ii]

Innovation is not one of the key strengths among finance firms. A recent BCG survey revealed that although innovation is a top three priority for 62% of financial services companies, 61% of managers are not satisfied with the return on their innovation investments. At the same time 62% plan on increasing those investments.

Possible reasons for the high failure rate of innovation include the following:

- The absence of accurate data on consumer needs means that developers launch the wrong products;
- products are launched without the adequate economic assessment;
- management has failed to invest in mechanisms that capture the creativity and innovative ideas of their staff;
- there are no metrics to evaluate innovation efforts.

[ii] 'Product innovation pays off for banks', A.T. Kearney, Asia Africa Intelligence Wire, May 22, 2003

Companies that build and sustain competitive advantage have an integrated process in place designed to generate new ideas, evaluate them, take the best ones forward and manage new launches to achieve profitability. In the following example, we consider how Tesco's achieved what many would have dismissed as impossible by launching a website for the blind.

Case study: Tesco

In 2000 the Royal National Institute for the Blind (RNIB) invited Tesco's IT Net Technologies Manager, Nick Lansley, to their offices for a demonstration of how blind people were struggling to shop at Tesco.com. Software can read the text in web pages aloud, but the Tesco site did not have descriptions for the images or the graphical buttons. Lansley watched in embarrassment while a blind person failed to place an order after struggling with the website for half an hour. Lansley decided to resolve the problem. [iii]

Since then, www.tesco.com/access/ has been in development. Alpha testing involved 20 people who had various sight problems and took place between June and September 2000. The website developer would sit beside each alpha tester watching them use the site, looking out for problems, modifying the design and testing each change. Once the interface was finished in September, Tesco's programming team worked on integrating it with the live ordering system. The pilot site was tested by around 70 blind and partially sighted people placing live orders who were recruited with the help of the RNIB and through online discussion forums.

The delivery team was trained to separate goods that need storing in a freezer, fridge and cupboard and was trained to place the shopping on a tabletop so that vision-impaired customers can easily find it.

[iii] 'Tesco launches visionary website', Sean McManus, Marketing Week 31 May 2001

Tesco Access launched to the mass market on May 22, 2001. In contrast to the main site, the only image on most of the site is the logo at the top of the screen. All the links are clearly described in text and the layout flows from the top to the bottom of the page, so that site navigation is much easier for the visually impaired.

Tesco has taken the controversial approach of creating a new site for greater accessibility, instead of redesigning its core site. Tesco had designed its original site to enable customers to shop in 15 minutes. The Access site was stripped of many of the visual images and uses very simple language with lots of links so that the visually impaired can shop quickly.

The RNIB cites the Disability Discrimination Act and says that companies might have a legal and not just moral obligation to make their websites accessible. But it also puts a strong business case. Tesco’s efforts to make their home grocery service more accessible to blind customers has resulted in revenue in excess of £13 million per annum, revenue that was unavailable to the company when the website was inaccessible to blind customers.

Tesco.com was the first site to carry the RNIB's 'See it Right Accessible Website Award', a logo which indicates that the site has been audited by RNIB's in-house usability specialists. The RNIB says the award aims to inspire designers to think about how they can make their sites accessible to people with sight problems without compromising on entertaining design. The award will also be used to direct blind and partially sighted surfers to websites they can use.

Research has shown that appreciation of marketing plays a key role in contributing to the success of innovation. Companies with a successful track record in innovation have insisted that market opportunities, not internal competencies should provide the direction for change. [iv] This is exemplified in the Bank of America case below.

Case study: Bank of America

Until fairly recently, Bank of America had never made innovation a priority and lacked a formal structure for developing new ideas[v]. This was changed when senior executives decided to create a new corporate unit called the innovation and development (I&D) team. New ideas were tested in an 'innovation market' within Bank of America's existing branch network, consisting of 25 branches (out of 200) in a major urban area. The corporate research team use the innovation market to conduct service experiments with actual customers during regular business hours, measures results precisely, compares them with those of control branches and pinpoints attractive innovations for broader rollout. The team worked closely with managers to set up product trials and developed a five-stage process to conceive and execute experiments. This process is described below.

1. Conceive, assess and prioritise experiment suggestions

Branch staff used the results of customer research data to develop a list of experiment ideas that were then placed in priority according to impact on customers and fit with the bank's strategy and funding requirements. Of 200 ideas, 40 became formal experiments e.g. testing whether television monitors reduced teller customers' perceived wait time.

2. Plan and design

Potential problems were identified at the experimental stage without customers before being tested live.

[iv] JOHN A and DAVIES R, 'Innovation in Medium-sized Insurance Companies: How Marketing Adds

For example a prototype branch was created.

3. Implement

Avoid contaminating results with inaccurate data.

For example, to temper the effects of noise (variables other than those being tested) the I&D team repeated the same experiment in the same branch and in different branches as well as establishing a control branch for reach experiment.

The Hawthorne effect refers to the tendency for people to behave differently when they know they are being watched. This effect was avoided when the bank introduced 'washout' periods that lasted for a week, so that novelty effects of new work patterns would be reduced among staff.

4. Test

When experiments were tested the bank invested time to balance speed with reliability when giving feedback.

For example, the I&D team ran each experiment for 90 days before adjusting or discontinuing it based on results. Members believed three months provided enough time to gain reliable measures without unduly delaying modifications. They also made exceptions, revamping one mortgage loan experiment after 30 days because getting credit approval was taking too long.

5. Recommend

Decide if experiments warrant further rollout.

Value, International Journal of Bank Marketing, 18/1, 2000

[v] R&D Comes to Services: Bank of America's Pathbreaking Experiment by Stefan Thomke, 2003

For example, analysing performance data from test locations and control branches, the bank determined which experiments had enhanced customer satisfaction, revenue generation and productivity. Then it performed cost-benefit analysis to ascertain whether the performance gain outweighed the expense required to introduce the new process nationally. Of 40 experiments, 20 were commended for rollout.[vi]

Bank of America even set up a prototype branch to rehearse experiments and work out glitches. In the real test branches, the company worked hard to attain rapid feedback from customers and make quick decisions regarding which new products and services were well received and had the highest profit potential.

As is explained in the next chapter, innovation is a process that must be subjected to the same managerial rigour and commitment that any other process receives. The process can begin with a series of candid questions:

- Are we investing sufficient resources in innovation? If so, is the investment having an impact?
- How do our innovation activities compare with our competitors?
- Do we have reasons for our last innovation failure and did we learn from the experience?
- Does everyone in the organisation know the role he or she plays in innovation and is performance measured and rewarded?
- Can we innovate quickly in response to regulatory changes, consumer pressure or fluctuations in the overall business climate?

[vi] Stefan Thomke 2003

Chapter 2

Critical Components of Success: The Process Factors

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Summary

- Recent benchmarking studies have revealed that the more successful companies do, indeed, do things differently. At the business unit (BU) level, these organisations have been found to master three critical success factors that drive the performance of new services. These three drivers are strategy, resource commitment, and process.
- A successful innovation process involving IT Integration between Royal Bank of Scotland and NatWest is contributing more than £400 million in annual recurring cost savings.
- Close to 60% of the service organisations that are members of the Product Development Management Association (PDMA) identify themselves as having either no product development process or an informal approach. Similar results are reported for financial institutions in the United Kingdom, where less than 45% of the companies have written guidelines for their development processes.
- There are three cornerstones for effective new service development to consider: **strategy**, **resources**, and **process**.
- *Strategy,* means tying new service development to the corporate strategy and goals, identifying areas of focus for service development, taking a long-term thrust, and ensuring that the innovation strategy is clearly communicated throughout the company.
- *Resource allocation* is another familiar success factor that means having enough of the right people and adequate development financing in place.
- *Process* – more specifically, a high quality development process that guides innovations from idea to launch – is less recognised as a critical success factor. Ironically, of the three, it is process – its nature and quality – that has the strongest impact on the business's new service performance. This chapter explores the new service development process and the ingredients that the top performers have in common.

Introduction

Service innovations can vary widely in their complexity. Regardless of the nature of the innovation, the fact remains that rapid and successful new service development has become a vital business endeavour. The dilemma faced by management is that the need for new service development is stronger than ever, but organisations themselves do not have the tools and methods to bring new services to market.

What drives performance? Why are some companies more successful than others at developing an ongoing stream of winning new services? Recent benchmarking studies have revealed that the more successful companies do, indeed, do things differently. At the BU level, these organisations have been found to master three critical success factors that drive the performance of new services. These three drivers are strategy, resource commitment, and process.

Strategy

A clear and well-communicated new service strategy for the business unit is essential. But what does this mean? In many companies defining strategy means turning the crank on the planning process once a year. Yet the fact that a company goes through the motions of an annual planning cycle and that weighty plans adorn executive bookcases, provides no clue to whether a company has a truly unique and compelling view about the future. Typically, the planning process is more about making the numbers add up than developing industry foresight. Strategy requires more than setting targets and enumerating the short-term tasks required to achieve them. Targets by themselves do not make a strategy; rather, a target is a goal or an objective, for example, increase sales by 15% by next year. Strategy means setting out a master plan for how a business unit will achieve its targets, and how those targets will contribute to the overall goals of the company.

A well thought out new service strategy should consist of the following:

- Clear goals or objectives for the BU's total new service effort; for example, there should be targets of revenues and profits for all new services;
- clearly communicated information on the role that new services will play in achieving the overall business goals of the company;
- clearly defined areas of strategic focus that give direction to the total new service effort, for example, markets and technologies;
- a long-term thrust that builds in long-term as well as short-term projects.

Resources

Inadequate resources in terms of people, time and money will imperil the new service development process. New service success requires the following:

- Senior management support for resources;
- budgets that support the necessary research and development;
- enough of the right people assigned to projects with sufficient free time to accomplish the work required.

Process

Strategy and resources will be squandered if there is no high-quality new service development processes. A high-quality new service development process has the following:

- Investment in planning activities;
- projects that are defined in terms of time, quality and budgetary constraints;
- customer consultation throughout the process;
- mechanisms for critical review of the project so that 'proceed' or 'terminate' decisions can be made;

- a strong focus on quality of execution of all the steps in a process;
- flexibility so that stages and decision points can be collapsed or skipped as indicated by the nature of the project.

The drivers of strategy, resources and process need to be in place and working together for the realisation of the superior performance. Unfortunately, many companies have not developed the internal discipline at either the project level or the decision-making level to achieve top performance. Instead, one or more of these three cornerstones is either missing or inadequately developed to respond to the challenges the company faces. Consider how all three components worked together when the Royal Bank of Scotland launched the biggest take-over in British Banking history when it bought National Westminster (NatWest).

The three cornerstones of NPD in action

The rapidly changing landscape and dynamics of the global financial services arena was the key backdrop for Edinburgh-headquartered Royal Bank of Scotland's (RBS) £22 billion aggressive bid for London-based NatWest Bank. It was the largest take-over in British banking history.

RBS was the fastest growing UK bank throughout the whole of the 1990s, but the opportunity for innovative and transformational change was presented when the rival Bank of Scotland tabled a hostile bid for NatWest. RBS then also bid to take over NatWest, and won the acquisition battle by demonstrating clear integration plans and both revenue and cost synergies.

With the acquisition of NatWest, Royal Bank of Scotland Group was created and it has now become Europe's second and the world's fifth largest banking organisation.

The outcome of the acquisition would, in large measure, be determined by successful IT integration and the merging of NatWest systems onto a single Royal Bank of Scotland Group platform, delivering £350 million in cost savings, recurring annually. This was considered the most cost effective and lowest risk option.

Many might have concluded that big should absorb small; NatWest was four to five times larger than Royal Bank of Scotland. Commentators in the City and the media were sceptical at the outset, describing the plan as ambitious and questioning if it could deliver the promised benefits. However, an unstinting belief and focus, coupled with innovative thinking, meticulous planning and execution has delivered results beyond expectations and ahead of schedule.

Working on one stable platform was the pre-requisite – and the RBS solution was both simpler and more effective as well as being cheaper to run. While keeping the two brands separate in the eyes of the customer, this would allow the handling of both RBS and NatWest operations on the same systems and with the same processes.

The IT integration programme

'IT Integration' involved moving the whole of the Group Systems (RBS and NatWest) on to a scaled Royal Bank platform. At a high level, this involved:

- The creation of a new Group Software Infrastructure;
- scaling of up to 600 computer systems to create one platform;
- testing and proving all 80,000 migration components;
- migrating 50 billion items of customer data;
- decommissioning 1000 old NatWest Systems.

Within 60 days of the takeover, the culture of a single IT function was created, merging the RBS and NatWest IT divisions in to a single hierarchy. All the systems were reviewed and a new IT strategy was agreed that would deliver the integration of the two banks.

During this time, it was essential for the business and technology to be in step, which involved a significant process change for some areas and the undertaking of a massive training programme across the Group. The business areas were involved at all stages of the Integration programme, from initial scoping through to the final implementation and conversion.

Customer service was at the forefront of all activities and ensuring that service levels were maintained throughout was a key priority.

Undertaking a programme on such a large scale required military-like execution. From the outset, each step was carefully planned and mapped, incorporating key milestones, based on the high level strategy. The goal was to reach the conversion weekend planned for early October 2002, when the majority of the NatWest systems would be migrated to the RBS platform, followed by decommissioning of redundant systems.

Prior to that, a number of key customer channels could be moved earlier, for example ATM's, the teller system, credit cards, payment authorisation and online banking to name a few. Each of these migrations was a huge task, but their success built confidence in GT's ability to complete the final conversion and delivered significant cost benefits in their own right.

By the end of April 2002, the building of the software and hardware to run NatWest on the scaled RBS platform was complete. Testing and proving then became the main focus, firstly to prove the NatWest would run on the RBS platform, which it did, and then to prove the conversion would work. Early testing and proving was done on a replica system platform.

To prove the conversion process would work, trials and proving cycles were scheduled to run the conversion weekend on the shadow platform, before moving to the live platform for final testing in the weeks prior to the conversion.

This was not just a technical exercise. Working with the business a number of dress rehearsals took place. These tested communications, logistics, training, timing and general support.

In total 10 cycles/trials were run prior to the weekend. The conversion was proved, and most importantly it was demonstrated that all Critical Business Processes would run after the conversion on the Monday morning. The conversion weekend was precisely scheduled, with more than 11,200 items making up the minute-by-minute schedule. The scale was breathtaking: 4,200 staff working during the weekend, migrating 22 billion data items, 18 million customer accounts worth £158 billion that was reconciled to the penny. The weekend was completed ahead of schedule with no major incidents and no impact to our customers as a result of the conversion.

The benefits of integration have been substantial

The RBS promise was to complete integration in three years. Never before had an IT project of this type and magnitude in the financial sector delivered the benefits originally claimed. In this case, the transformation timescale was abbreviated by some five months. The acquisition date was March 6, 2000, the IT integration was declared complete and fully operational on November 13, 2002. The actual annually recurring savings increased by £50 million, to £400 million annually. To date, these figures are believed to be unsurpassed in the banking industry at global level. In addition, a key indicator of performance, the cost:income ratio has shown significant improvement during integration (see Table 2.1).

The completed integration, and the new single IT platform is supporting 2,287 branches, 14 call centres and more than 5000 ATMs across the UK.

The following table indicates the Group financial performance and the integration benefits achieved:

Table 2.1: Group financial performance and integration benefits

	Pro forma – Year to 31 Dec 2000	Year to 31 Dec 2001	Year to Dec 2002
Income (£m)	12,300 (+12%)	14,581 (+18%)	16,815 (+16%)
Profit before tax, goodwill amortisation & integration costs (£m)	4,401 (+31%)	5,801 (+32%)	6,451 (+12%)
Cost/Income ratio	53.5	46.9	45.6

	2000	2001	2002			
	Plan	**Actual**	**Plan**	**Actual**	**Plan**	**Actual**
Revenue benefits - impact on profit before tax (£m)	50	52	120	312	460*	472
Cost savings – impact on profit before tax (£m)	290	448	700	1,008	1,280*	1,284

Source: Royal Bank of Scotland Business Insights

IT Integration is contributing more than £400 million in annual recurring cost savings. The success of the integration programme beyond expectation led to the plan for integration profit and cost savings being revised upwards for 2002 to the figures detailed in the chart.

The Bank's market capitalisation has risen from £19.7 billion on the date of the acquisition to £43.1 billion at December 2002, and the share price has consistently out-performed the FTSE Banking Sector index.

During the integration programme, the Group has continued to grow its customer base across all divisions. They have seen benefits such as an enhanced ATM service, real time balances are available and customer information has been enhanced at branches. A recent NOP survey showed 73% of RBS customers are 'Extremely' or 'Very Satisfied' with the service they receive.

The new Group platform will enable future growth and expansion to be accommodated for the next 15 years.

Conclusions

Integration is not a new concept. What was innovative about this programme was the scale upon which it was undertaken, the integration of big into small and the management and focus on delivering results has resulted in a programme that was unsurpassed in scale, complexity and resulting benefits in the financial services world. The whole RBSG Integration programme has been underpinned by the success of IT Integration.

The next step is to examine some of the norms and best practices for the new service development process.

The ingredients of a world-class process

New service development is an elusive pipedream for many managers. Consider the three cornerstones of performance: strategy, resources, and process. How does your organisation measure up? Ask yourself whether your company has any of the following:

- A clearly defined innovation strategy for new service development;
- the resources in place to meet expectation (people, time, and money);
- a high-quality development process?

If you answered no to any of these three points, perhaps it is time to consider how your company could strengthen the deficient cornerstones.

A world-class process consists of key activities from idea to launch that drive new service projects to market quickly and efficiently. The following table depicts the typical service development process, along with brief descriptions of what each activity involves.

Table 2.2: New service development process activities

Process Activity	Description
Idea screening	Initial decision as to whether or not proposed new project will be funded
Preliminary market assessment	Preliminary look at the market
Preliminary technical assessment	Quick assessment of the technical merits and difficulties of the project
Detailed market study/market research	Marketing research involving a reasonable sample of respondents, a formal design, and a consistent data collection procedure
Business/financial analysis	A financial or business analysis leading to a go/no go decision prior to development
Service creation/development	Development of product/service
Process development	Process (procedures) design and testing
System design	Systems are properly debugged
Personnel training	All involved personnel are fully trained in how to deliver new service
Test market/trial sell	A test is conducted among a limited number of customers to evaluate the plan prior to launch
Business Analysis	Financial analysis following development but prior to full-scale launch
Full scale launch	Full launch accompanied by an full set of marketing activities
Post launch review and analysis	Review and analysis with recommendations for improvement and modifications where necessary

Source: Adapted from COOPER R and EDGETT S ‘Product Development for the Service Sector’, 1999

Business Insights

Many companies in the service sector seem to have a less-structured approach to developing new offerings than their manufacturing-based counterparts. For example, close to 60% of the service organisations that are members of the Product Development Management Association (PDMA) identify themselves as having either no product development process or an informal approach. Similar results are reported for financial institution in the United Kingdom, where less than 45% of the companies have written guidelines for their development processes.[vii]

Studying the success factors

During the past two decades, a team of writers and academics have studied over 1,500 new service launches to determine which factors influence success. [viii]

Short-changing the process has consequences

Although most people seem to agree that the development process should include all of the activities mentioned above, many companies are found wanting. In one major study it was revealed that many of the commonly recommended development activities are omitted altogether from the development process. The results, summarised below, are not reassuring, given the amounts of money many of these organisations spend on developing new products and services:

- *Omission of key activities:* commonly prescribed practices such as detailed market studies, market research, test markets, and business analyses are undertaken in less than half of the companies studied;

- *marketing is the weakest area: w*hile marketing activities have been proven drivers of successful new service development, they are most often omitted (detailed market research, test marketing) Key activities such as precommercialisation business

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[vii] COOPER R and EDGETT S, 'Product Development for the Service Sector', 1999
[viii] COOPER R, EDGETT S, 'Product Development for the Service Sector', 1999

analysis and post-launch review and analysis are undertaken in less than half of the companies studied.

The picture here is bleak: many companies have processes that are full of holes, with serious errors of omission. When one stands back and looks at the new service development process in the companies surveyed, one notices that less than half of the companies complete ten or more of the prescribed development activities. Indeed, 37% do only five to nine of the possible 13 activities. This indicates a truncated process at best. Further, in 18% of the companies, five or fewer activities are undertaken; that is, more than half of the development process is left out. These companies need not look far to find out why they are having trouble developing new services. The answer probably lies in the development process itself.

What about the quality of execution? Even if an activity is carried out, is it well done? Or has the activity been undertaken in a rushed or sloppy fashion? The results are not encouraging. Two conclusions can be drawn from this data:

Two activities, *preliminary market assessment* and *product (project) development,* can be considered to have adequate quality of execution, although even here the result is not strong with survey respondents indicating there was scope for improvement.

Development activities are handled relatively well; but the actions that precede and follow the development stage are handled poorly. Particularly weak are *detailed market studies/market research, test market/trial sells,* and *business analysis,* both pre- and post-development.

A number of studies have explored the links between product/service development activities and the development process itself. These studies have determined that a strong market-driven development process has positive impact on new service outcomes. Unfortunately, a number of these studies have also shown that the theory is not being put into practice in many organisations. Instead, many companies simply do not have good processes in place.

A word of caution: the mere existence of a formal development process has not been demonstrated to have an impact on performance. There is very little correlation between the mere existence of a formal process and performance results. The message is this: companies that mistakenly believe they can go through the motions and ‘reengineer’ their new service development processes (usually amounting to documenting what they are already doing) are in for a big disappointment. Merely *having* a process is not what counts the most. This is only the starting point. What really impacts performance is the nature of the process and the quality of its execution. This means that processes have to build in best practices – activities that time and again have been shown to drive performance.

In 2003 the Bank of Ireland GB won the Institute of Financial Services Award for Innovation in the Best Customer Service Strategy category. The following case study illustrates how process re-engineering was used in an imaginative marketing context that has achieved a paradigm shift in one of the most important bank-customer transactions - the account opening process.

Opening a business or personal bank account can be a frustrating process for customer and banker alike. Bank of Ireland decided to throw out the library of forms and procedures and start again – from the customer’s point of view.

The results have been impressive. Staff are very comfortable with the new system as they received the all necessary information. Legal and compliance requirements are met completely and most importantly, the customer gets a fast reliable service and clear information.

The system has been commended not just by customers, staff and introducers, but also by the Banking Code Standards Board.

Areas where innovation has taken place, and the nature of the innovation

Given their aggressive growth agenda, the Marketing department is a key driver and provider of front line support for Bank of Ireland Great Britain. Based at the Bank's headquarters in the City of London, there are 11 people working to meet the needs of the four different business divisions that comprise Bank of Ireland GB. Activities include marketing development and strategy, customer research, print and design, advertising, sponsorship, corporate hospitality and event management, internal communications and public relations.

As part of the Bank's commitment to deliver service quality, the Marketing team took the opportunity to review the existing account opening process from a customer perspective.

Working with a team of colleagues drawn from across the business, the review involved:

- Documenting the existing process;
- establishing the best/worst elements;
- benchmarking against the best available in the industry (using customer/professional adviser feedback);
- ensuring that the outcome was considerably more user friendly for both customers and staff.

Customer Service staff and Relationship Managers were invited to attend workshops where the account opening process was examined step by step. Introducers, who are a key source of new business, and customers, were surveyed for their input and this feedback was incorporated into a new process. Work then began on the redesign of the marketing material.

Key drivers were:

- Simple, clear and easy to understand documentation;
- creation of a one-stop process with all of the appropriate documentation contained in one pack;
- compliance with all regulatory and legal requirements.

Outcome

The introduction of a streamlined suite of sealed application packs appropriate for all customers (limited companies, partnerships, sole traders, personal etc). The material dovetailed with an enhanced process for handling applications at branch/business unit level.

Each application pack contains:

- Account transfer authority;
- direct debit/standing order mandate;
- telephone and fax indemnity;
- bankers verification of identity;
- guide to business banking (details of how banking system works);
- business banking code summary;
- fees and charges for business customers;
- compliance checklist.

Impact of the reforms

The impact of the reforms was immediate – customer service and relationship management teams responded very positively to the streamlined process, attractive packaging and reduction in workload. From a customer perspective, the end result was one set of documentation with clear prompts on completion and any supporting documentation required.

A key introducer commented: “Bank of Ireland has really cracked this … it’s the best documentation of any of the banks I deal with.”

A further benefit is the development of a Compliance and Account Opening Checklist. Its purpose is to track any breaches of the FSA Money Laundering code and support the risk-management process. The checklist is simple to use for both front line and Risk Management teams.

The Banking Code Standards Board review in February 2003 improved the company rating from “red” to “green” and included the following commendation:

“…In particular, the reviewers were impressed with the packaged system of documentation used by staff to open new accounts. The sealed package of documents received from the marketing department of the Bank included all the paperwork necessary to open the account, together with other items of literature to be handed to the customer such as the Codes ‘Flyer’. This system enabled the member of staff to open the account with the confidence that all aspects of the account opening procedure had been complied with, and that all documentation necessary had been given to the customer."

Assessment of value in terms of additional revenues or reduced costs

The new packs provide a simple, one-stop solution for account opening which is faster and more transparent, leading to increased productivity, better engagement between staff and customers and overall improved satisfaction at both staff and customer level.

In the customer satisfaction survey conducted in Spring 2003 the bank noted:

- Above average scores for 'the information you were given throughout the application process';
- well above average scores for 'speed of service';
- an increase of 4% in our customer communications score.

Staff satisfaction is measured annually and since the introduction of the revised account opening process, scores for the statement, 'I have access to the systems and support I need to do my job', increased by 12%.

The introduction of the new account opening pack also meant that Bank of Ireland GB standard stationery catalogue had 20-plus items withdrawn. These were replaced by a combination of the new packs and supported by online access via Group Intranet to a dynamic document databank, which may be accessed from any desktop. Overall print saving is in excess of £30,000 p.a., in addition to a 10% reduction in design and production management time.

Status of the project in terms of its implementation and any future plans

The project was completed in Summer 2002. Implementation review (Autumn 2002) highlighted positive user feedback and identified additional enhancements. Revisions to the Business Banking Code necessitated a further review in early 2003 and the revised suite of material was launched in March 2003.

By definition, the packs are dynamic and will continue to be subject to regular review to ensure they retain their key attributes:

- Simplicity and clarity;
- comprehensive one-stop process;
- fully compliant.

Proponents of total quality management make an argument that goes something like this: “The definition of quality is precise. It means meeting all the requirements all the time. It is based on the principle that all work is a process. It focuses on improving business processes to eliminate errors.” The concept is perfectly logical and essentially simple. And the same logic can be applied to developing new services.

The way to deal with the quality problem in innovation is to visualise it as a process and to apply process management and quality management techniques. Note that any process in business can be managed with a view to quality. Get the details of your processes right, and the result will be a high-quality output.

The strongest differences between the top and poor performers are in idea screening, preliminary market assessment, detailed market studies, and post-launch review and analysis. Except for post-launch activities, the tasks that distinguish the high performers from the low performers can be classified as predevelopment. In other words, companies that have taken the time to conduct good, up-front analyses have produced better results. By spending the extra time in the predevelopment stages, these organisations ensure that new projects enter the more expensive development phases with complete information on markets, competition and financial viability. This, in turn, leads to tighter specifications for the system people to work with. This produces better end products in a more timely fashion.

Designing and implementing the new service development process is one step on the road toward more effective and timely development efforts. Many organisations are facing increased pressure to reduce cycle time and simultaneously improve the effectiveness of their new service development process. Many have successfully tackled this challenge by building into their processes the many lessons they have learned from previous successes and failures.

If you are thinking about overhauling your development process, remember the three cornerstones that lead to strong performance results: a clearly articulated new service strategy, commitment of adequate resources, and a high-quality development process. In this chapter we have argued that the new service development process and the activities that occur throughout the process have a strong impact on how successful the organisation is at developing winning new services. However, the process itself is not the final answer. It is how the process is executed that makes the difference. Many organisations either do not have a complete process in place, or they suffer from lack of quality in execution. In the following chapters we analyse the new product development process within UK financial firms to identify the distinguishing characteristics of the processes that were used for successful new products.

Chapter 3

How to Develop NPD for Financial Services

Chapter 3 How to Develop NPD for Financial Services

Summary

- Depository banking products are on the whole a lot quicker to develop than credit-based products
- There are four types of innovation for financial services: new to company innovations; product innovation; market innovation and process innovations or product modifications.
- Different types of innovation require different treatment, both in terms of the strategy needed to support them, and the way in which the strategy is implemented. The nature of these innovations and how they are developed and marketed are considered
- Research consistently shows that a successful new product has a good synergy between the product and the target market. This involves marketing research, identifying the critical product characteristics that will fit the market and making sure those characteristics are incorporated and communicated to the market correctly
- Financial performance for new products is determined by six key factors: marketing synergy; a market driven new product process; effective marketing communication; customer service; managerial and financial synergy and launch preparation.

Introduction

This study aims to evaluate how managers develop new products for financial services. It will help managers engaged in the development of new financial products learn more about what other managers do in this area. It identifies the key factors that must be addressed when introducing new products to the market, drawing upon research into best practice in new product development, and comparing what is taking place in practice with what should, in theory, take place if the process is to be successful.

The main questions this chapter will answer are:

How do firms in the commercial banking industry manage the challenges related to the development of new consumer products?

What is the relationship between strategy used for NPD and product performance?

What is the relationship between the planning intensity and development intensity and the new product performance?

Do firms with different strategies emphasise different stages of the NPD process?

The final judgement of whether or not a new product is successful is a commercial one. The criteria for judging that success are ultimately derived from the market; since a new product is only successful if it is adopted by customers. Ensuring a new product launch is a marketing success means getting the strategy right, managing the development of the new product, making sure the new product is introduced to its market at the right time and following the launch with the correct marketing support.

The survey, conducted for this and subsequent chapters of the report, measures the ways in which managers associated with new products that were launched in the last 12 months handled the process. The survey was designed to test the hypotheses that top financial performers would exhibit the following characteristics[ix]:

[ix] COOPER R, EASINGWOOD C, EDGETT S, KLEINSCHMIDT E, STOREY C, 'What Distinguishes the Top Performing New Products in Financial Services, Journal of Product Innovation Management, 1994, 11

Marketing synergy i.e. a strong fit between the needs of the new product and the company in terms of marketing resources and expertise, advertising and promotion expertise and resources and sales force/distribution resources expertise.

A market-driven new product process - this involves a well planned and executed process where customer needs, wants and buying behaviour are understood, where adequate resources are developed to market research and product development, where market research is used to test customer responses to the product concept and strategy and where competitors strategies and products are clearly understood.

Effective marketing communication - an effective communications strategy should achieve all or some of the following:

- Raise consumer awareness of the new product;
- explain and convince consumers of the benefits of the new product;
- show consistency with the rest of the marketing strategy for the new product;
- create a distinct brand image for the product and occupy a unique position in the target market.

Customer service - previous research shows that new products with good customer service fare better financially.

Managerial and financial synergy - where there is a strong fit between the needs of the project and the management and financial expertise within the firm, new products will be expected to perform better in terms of profits, sales, share and growth.

Launch preparation - extensive preparation and training of front line staff is fundamental to new product success.

Different types of innovation require different treatment, both in terms of the strategy needed to support them, and the way in which the strategy is implemented. The nature of these innovations and how they are developed and marketed are considered.

Research consistently shows that a successful new product has a good synergy between the product and the target market. This involves marketing research, identifying the critical product characteristics that will fit the market and making sure those characteristics are incorporated and communicated to the market correctly.

Research method

Questions were developed to measure the following dimensions of the development of new financial products:

1. The type of innovation
2. Product-Market Synergy
3. The new product development process
4. The new product market launch
5. Customer service support for the new product
6. Measures of success of the new product
7. Demographic characteristics of respondents

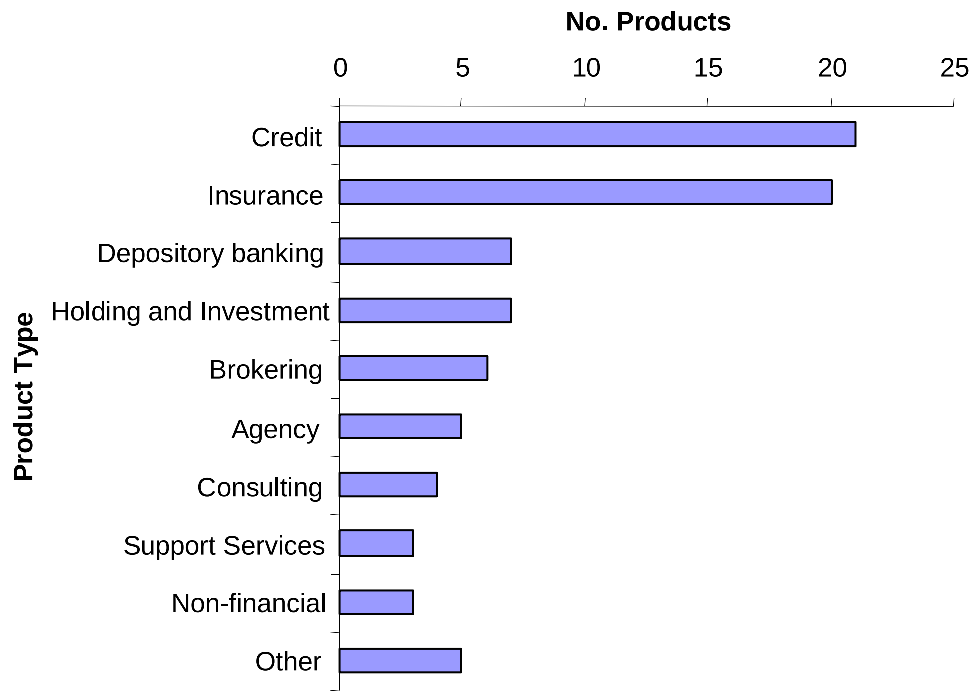
The questionnaire used is provided in Appendix 1.

The questionnaire was conducted online and managed by Business Insights. A total of 83 responses were received, of which 81 were usable.

Sample profile

Around 50% of the products surveyed are from the credit and insurance sectors.

Figure 3.1: What types of financial product are included in the survey?



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

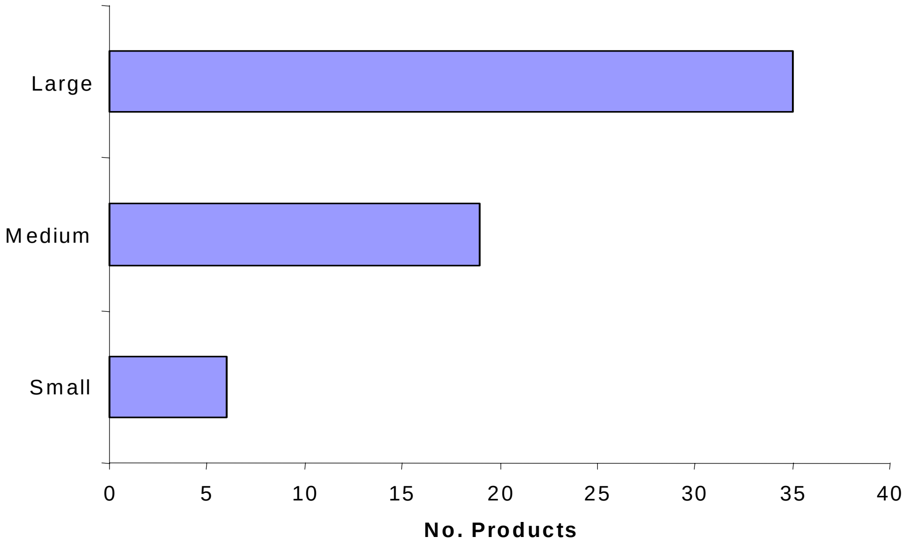
90% of the products surveyed were from medium (10-500 employees) and large (more than 500 employees)

Table 3.3: Size of companies surveyed

Size of Company (employees)	No. Products	Percent
Small	6	10%
Medium	19	32%
Large	35	58%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Figure 3.2: Number of products by company size



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

What responsibilities did respondents have during the development of the new products?

It was a condition of survey completion that respondents should have been involved in the development of a new product that has been launched within the last year. Some respondents cited more than one responsibility. 65% of all citations are from respondents who had responsibility for either research and development or marketing or both.

Table 3.4: Responsibilities of respondents

Responsibility	No. Citations	%
Research and Development	27	33%
Marketing	26	32%
Project Management	20	25%
General Management	20	25%
Advisory	15	19%
Finance	2	2%
Other	4	5%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Nature of innovation

If we want to focus on better ways to develop and launch new services, we should be clear on exactly what is meant by the word ‘new’.

The argument that true, new to the world services are rare in a service environment is probably correct. Many would argue that most new services are versions of existing services or copies of competitors’ products.

To help clarify what the term new means, the following definitions are offered. Remember that new can be new to the company, such as a new source of revenue, or it can be new to the marketplace – or it can be both at the same time.

The four types of innovation for new financial products

A useful way of classifying innovations is by the ‘newness’ of the product and of the market it is aimed at. This gives four types of innovation:

New-to-company innovations

These are products that are completely new to the company and are aimed at a market that is also new to the company. These are usually major innovations of some form. As would be expected, this type of innovation is quite rare and carries the highest level of risk.

Product innovations

These are products that are new to the company, but are being aimed at a market that the company is already serving. This type of service is one that is new to the organisation but not to the marketplace; therefore, the risk is still high because the service is a new experience for the company. New service lines could include new business ventures, partnerships and joint ventures, Some examples of new service lines are a hotel chain adding a new line of down-market hotels that caters to a business segment of the travel market; IBM’s expansion into Internet services and banks entering the insurance business either by developing their own insurance offerings or by acquiring existing insurance companies.

Market innovations

These are products that may be modified, but are essentially products that are familiar to the company, but are being aimed at a new market. An example of a product in this category is HSBC's decision in 2003 to launch Islamic mortgages to the UK's Muslim community. While the HSBC is already an established player in the provision of mortgages, it had to modify the characteristics of the product to comply with Islamic law that forbids the receipt and payment of interest. This can result in Muslims having to pay in cash for large purchases, such as houses.

Under the HSBC scheme, the bank buys the property and leases it back to the customer over an agreed term.

Process innovations or product modifications

These are products that may be modified in some way, or where the process of providing the service has changed. The market is one the company already serves.

This version of 'new' is really a replacement or update of an existing service offering. These projects are typically low risk and are designed primarily to modernise. Very often these are presented under the banner 'new and improved'. Although these services are usually low risk and produce little new revenue, they are needed to retain existing revenue streams. Unfortunately many companies expend far too many resources in this category at the expense of new services. Some typical examples include minor changes to mortgage plans and minor improvements to telephone banking services. Although the actual innovation is small, it can sometimes be very noticeable to the customer; for example, new uniforms or different formats for monthly bank statements.

The following table shows the descriptions of the products that were surveyed and how respondents classified them as an innovation.

Figure 3.3: Product descriptions of survey

	New Market	Existing Market
New Product	**New to Company** financial asset servicing guaranteed equity fund transfer service investment in organic food sharia compliant credit product internet banking services a voluntary benefit solution enterprise risk compliance and governance software	**Product Innovation** indemnity for health professionals an offset balance mortgage product service for financial marketing strategies insurance of payment cards a linked current account and savings account service to charge services directly via the internet pension savings account property casualty insurance program bond portfolio personal loan emv data generation for chip card personalisations e-statements

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Figure 3.4: Product descriptions of survey, continued

Existing Product	Market Innovation	Process Innovation or product modification
	an offshore life assurance wrapper	electronic sending of invoices
	life assurance	workflow and management solution
	private motor insurance	short-term funding of issuers
		flat rate credit cards
		loan for buying or building a house
		mortgage loan for buying or building a house
		a range of flexible mortgages
		a managed fund
		capital protected structured product
		ll in one banking account
		ixed structure (instalment) and flexible loan
		description of technical and financial data from an asset (buildings)
		offers optional cover for casualty environmental and machinery
		a structured product offering 100% capital protection with upside potential
		a structured product ensuring capital guarantee as well as a return related to the price of the underlying crude brent oil

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

How long does it take to develop a new financial product?

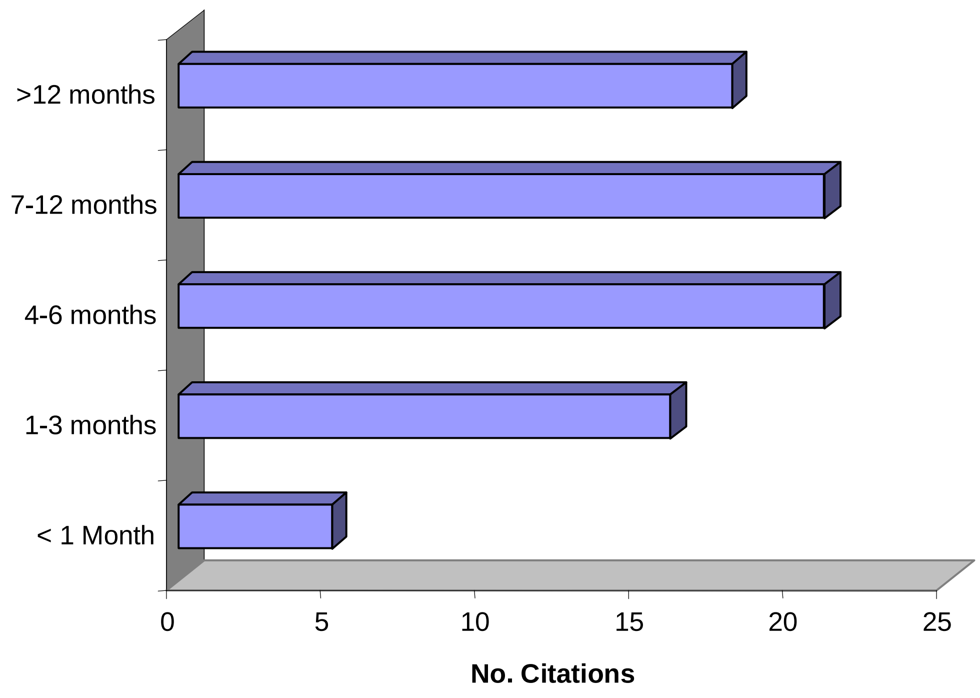
Nearly 50% of all products surveyed took more than 6 months to develop.

Table 3.5: FS NPD cycle?

Time to launch	Number of respondents	Percent
< 1 month	5	6.2%
1-3 months	16	19.8%
4-6 months	21	25.9%
7-12 months	21	25.9%
>12 months	18	22.2%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Figure 3.5: NPD cycle



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Table 3.6: Do different types of innovation take longer to develop than others?

	New product, new market	New product, existing market	Modified product, new market	Modified product, existing market
< 1 month	8%	4%	20%	8%
1-3 months	8%	16%	20%	24%
4-6 months	25%	36%	40%	16%
7-12 months	25%	32%	0%	24%
>12 months	33%	12%	20%	28%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The table shows there are some differences with the time it takes to develop new products for different types of innovation. The differences are summarised in the table below.

Figure 3.6: Product descriptions of survey

	New Market	Existing Market
New Product	**New to Company** More than 12 months	**Product Innovation** 4-6 months
Existing Product	**Market Innovation** 4-6 months	**Process Innovation or product modification** Variable

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Does company size affect the speed at which new products are developed?

The mode for medium companies = 4 to 6 months, for large companies = 7 to 12 months.

This table shows the column percentages. As the sample includes only a small number of small companies, their data was excluded from the analysis. The modal values do show a difference between medium and large companies that suggest larger companies tend to take longer to get their new products to market than medium-sized ones.

Table 3.7: Effects of company size on speed of new product development

	Medium	Large
< 1 Month	11%	9%
1-3 months	16%	17%
4-6 months	42%	20%
7-12 months	16%	34%
>12 months	16%	20%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Do different types of financial product take longer to develop than others?

The table shows the column percentages and the modal value for each type of financial product. The table suggests that depository banking products are on the whole a lot quicker to develop than credit-based products.

Table 3.8: Development times for different types of financial products

	Depository banking	Credit	Brokering	Insurance	Agency	Holding & Investment
< 1 Month	0%	0%	0%	5%	20%	14%
1-3 months	29%	14%	33%	15%	0%	29%
4-6 months	43%	29%	50%	30%	20%	14%
7-12 months	14%	19%	17%	35%	40%	43%
>12 months	14%	38%	0%	15%	20%	0%
Mode	**4-6 mths**	**>12 mths**	**4-6 mths**	**7-12 mths**	**7-12 mths**	**7-12 mths**

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Chapter 4

Creating Marketing Synergy

Chapter 4 Creating Marketing Synergy

Summary

- Increasing revenue is top of the wish list as the objective for new products; but 33% of new products fail to attain the objective.
- Products that were able to deliver newness (something that could not be done before) are more likely to deliver volume sales and profitability.
- 62% of financial services marketers believe they could be marketing products more effectively.
- Research carried out by Masius, shows that after business-to-business, financial services clients are the least cherished by agencies.
- "Marketing professionals' lack of authority in financial services slows up the marketing process, as they have to get sanction from higher up the command chain. This, in turn, reinforces a more conservative approach to advertising, unlike at packaged goods companies which tend to be marketing driven".
- Products that were able to deliver newness (something that could not be done before) are more likely to deliver volume sales and profitability. Products that deliver better quality and value tend to be good at achieving strategic objectives and creating strategic opportunities.

Introduction

Research shows that good synergy between the product design and the needs of the market is one of the most important factors contributing to success [x]. Good market synergy is created by a clear and effective marketing strategy that is built upon a clear set of objectives.

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[x] See Piercy N, 'Market Led Strategic Change', 1997

The survey asked respondents to indicate which of ten different strategic objectives were used in the development process. They were asked to rate each objective as primary, secondary or not applicable.

Strategic objectives for developing new products

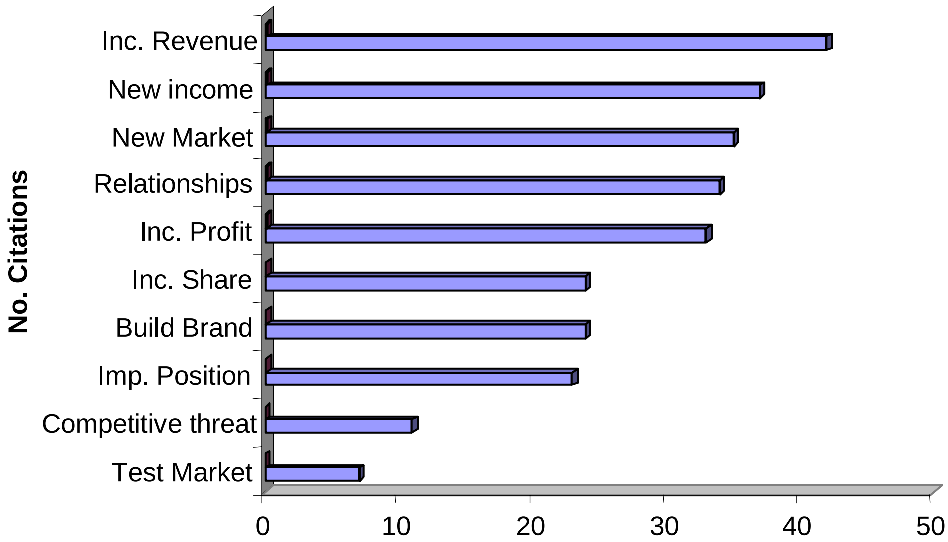
1. Improve the company's sales revenue
2. Improve the company's market share
3. Improve the company's profitability
4. Increase the overall strength of the company's brand
5. Improve the position of the company's brand in a market
6. Open up a new strategic market area for the company
7. Develop a new income stream for the company
8. Improve customer relationships
9. Respond to a competitive threat
10. Test a new product idea before implementing on a larger scale

The chart shows that the most frequently cited primary strategic objectives for the 81 new product launches are revenue-related. Of all citations, increasing revenue or developing new income streams took 30% of the citations. Following these are:

- Open up a new market;
- improving customer relationships and increasing profitability, with 12-13% of citations each.

Noteworthy is how relatively few new products were developed to respond to a competitive threat.

Figure 4.7: Primary strategic objectives of NPD



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Are different strategic objectives used for different types of innovation?

Table 4.9: Primary strategic objective of NPD in FS

Strategic Objective	New product, new market	New product, existing market	Modified product, new market	Modified product, existing market
Inc. revenue	14%	16%	8%	17%
Inc. share	12%	10%	8%	7%
Inc. profit	9%	10%	8%	16%
Build brand	7%	7%	8%	12%
Imp. position	9%	6%	15%	10%
New market	16%	13%	15%	11%
New income	16%	13%	23%	12%
Relationships	12%	14%	8%	12%
Competitive threat	2%	7%	0%	3%
Test Market	2%	4%	8%	1%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The table shows column percentages for the number of citations given for primary strategic objectives, cross-referred with the type of innovation each new product represents. Looking at the modal values in each column, we can begin to get an understanding for the kinds of strategic objective that are frequently associated with different types of innovation. These are summarised in the table below.

Figure 4.8: Different strategic objectives implemented for different types of innovation

	New Market	Existing Market
New Product	**New to Company** New market objective New Income stream objective	**Product Innovation** Increase revenues Build relationships
Existing Product	**Market Innovation** New income stream Open a new market Improve positioning	**Process Innovation or product modification** Increase revenue Increase profitability

	New Market	Existing Market
New Product	**New to Company** New market objective New Income stream objective	**Product Innovation** Increase revenues Build relationships
Existing Product	**Market Innovation** New income stream Open a new market Improve positioning	**Process Innovation or product modification** Increase revenue Increase profitability

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Again generating revenue dominates as the primary objective, but we can also see for example that process innovations tend to be developed with the aim of improving profitability, while product innovations are often developed to improve customer relationships.

Are different strategic objectives used in different types of market environment?

Table 4.10: Different strategic objectives implemented for different types of market

Strategic objective	Rapid growth	Changing needs	Monopolistic	Competitive	Price competition
Inc. revenue	15%	16%	14%	16%	17%
Inc. share	9%	11%	10%	10%	10%
Inc. profit	10%	16%	14%	14%	13%
Build brand	7%	8%	10%	10%	8%
Imp. position	8%	7%	9%	9%	9%
New market	15%	11%	11%	8%	11%
New income	14%	13%	14%	13%	12%
Relationships	13%	10%	12%	13%	12%
Competitive threat	5%	6%	5%	5%	3%
Test market	3%	2%	3%	1%	3%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Respondents were asked to describe the characteristics of the market the new product was developed for. Five market characteristics were measured:

1. Fast growing
2. Has rapidly changing customer needs
3. Has one or more very dominant competitors
4. Has a large number of competitors
5. Is characterised by intense price competition

The modal values of the column percentages in the table above are summarised in the table below. This table clearly shows that the primary objective, regardless of market characteristic is to generate revenue.

Figure 4.9: Primary objective is to generate revenue

Market Characteristic	Primary objective
Rapid growth	Increase revenue New market
Changing needs	Increase revenue Increase profit
Dominant competitor	Increase revenue Increase profit New income
Many competitors	Increase revenue Increase profit
Price competition	Increase revenue

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Successes and failures of strategic objectives

Table 4.11: Are some types of strategic objectives easier to achieve than others?

Objective	% successful
Build brand	83%
Imp. position	78%
New income	76%
Inc. share	75%
New market	74%
Relationships	74%
Inc. profit	73%
Competitive threat	73%
Test market	71%
Inc. revenue	67%

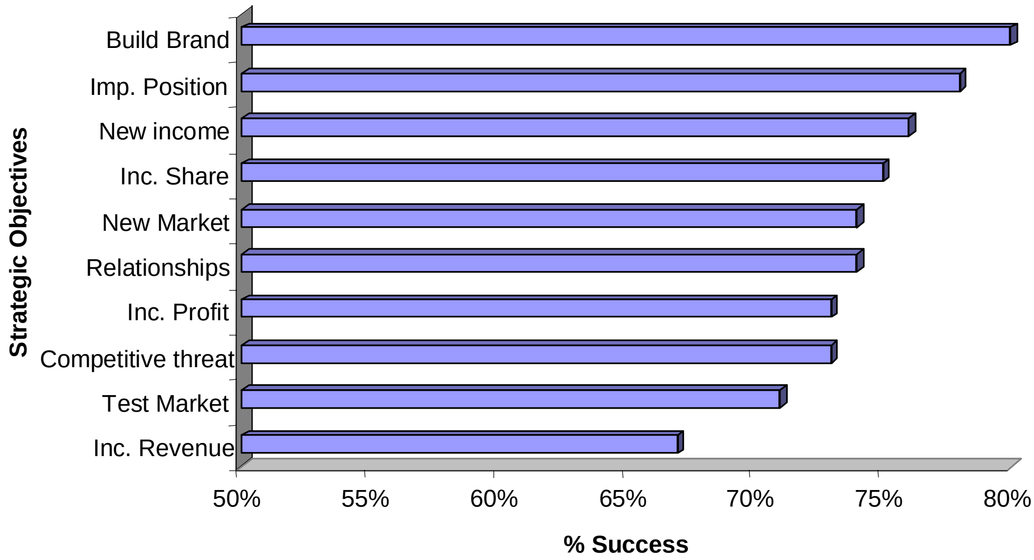
Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Increasing revenue is top of the wish list but it bottom of the performance list

Respondents were asked to rate the performance of their new product on several dimensions. One of these was the extent to which they believed the new product met its strategic objectives. From this we can build up a picture of the strategic objectives that are easiest to achieve.

This question revealed very interesting results. While increasing revenue is top of the wish list, it comes at the bottom of the performance list, with 33% of new products that had this as a primary objective failing to achieve it. Conversely, the role of a new product in building a brand or improving market position seems to be a great deal more successful.

Figure 4.10: Strategic objectives versus success rate



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The survey did not reveal the precise reason why so may new products fail to generate revenue targets. Nevertheless, there is sufficient evidence from alternative sources to suggest that marketing practice in many firms is seriously deficient.

Sir Howard Davies, the outgoing chairman of the Financial Services Authority (FSA), took a hard swipe at marketing at the FSA annual meeting in 2003. He described the situation as a "retail market failure" and said the reputations of financial services companies in general were being dragged down by the questionable marketing practices of the bad and the ugly.

In his speech Davies said: "We must do more to promote the benefits of wise and compliant marketing to firms themselves. Unfortunately, much of the industry remains focused on short-term gain from 'shifting product'." He said he found it worrying that many financial services companies were happy to call themselves "product providers", terminology which he felt suggested a distance from consumers, and concluded that they were not meeting consumers' desires for a long-term relationship built on trust.

Sector of discontent

The extent of discomfort within financial services marketing is apparent from research by Publicis for the Financial Services Forum, of which many of the industry's senior marketers are members. It shows that 62% of financial services marketers believe they could be marketing products more effectively. Another 42% felt their company pressurised them to focus on the wrong areas.[xi] A key problem, according to many marketers in the sector, is that they are not seen as integral to the business. They believe they are seen merely as an afterthought to implement strategies based on decisions that have already been taken. This discontent is compounded by the significant numbers of marketers who have been made redundant at large organisations such as HSBC, Norwich Union, Scottish Widows and Jupiter Asset Management.

Advertising agencies say they find their financial services clients difficult to work with for similar reasons. Andrew Porter, chief executive of agency Masius, says marketing professionals' lack of authority in financial services slows up the marketing process, as they have to get sanction from higher up the command chain. This, in turn, reinforces a more conservative approach to advertising, unlike at packaged goods companies, which tend to be marketing driven. Research carried out by Masius, shows that after business-to-business, financial services clients are the least cherished by agencies (perhaps predictably, car manufacturers are the most valued).

[xi] STONES J, ‘Marketing Week’, July 24, 2003, v26

Competitive advantage

In most companies, a call for 'more innovation' is interpreted as a plea for new features on old products. While this form of innovation is still important, it does little to shield the firm from the competitor who is willing to launch daring new business concepts. Look, for example, at the failure of Compaq Computer to adapt itself to Dell's direct sales, build-to-order business concept. While Dell was building a bold new business model, Compaq responded by buying Digital Equipment Corporation, an almost deceased computer manufacturer. This type of reactive approach to competitors does little to win the trust of new customers and other stakeholders.

An innovative approach that can be used to challenge the preconceptions and obsessions of a firm's current worldview is to create an "invented" competitor and then consider what type of strategy the invented competitor might employ.[xii] This tool enables the firm to identify new business opportunities and address limitations and vulnerabilities in current strategy and operations.

An invented competitor is an imaginary rival that could appear in the future with an innovative marketplace strategy. In its simplest form, the strategy is built around a new, breakthrough product, or at least one that is radically different from today's offering. In addition, it could also have a number of advantages in the network of relationships it possesses with groups such as customers, distributors, retailers, suppliers and governmental agencies.

The invented competitor's projected strategy, that is, where it competes in the marketplace (marketplace scope), how it competes (competitive posture), and what it tries to achieve (goals), should be distinct from any strategy pursued by current players.

[xii] FAHEY L, 'Invented Competitors: a new competitor analysis methodology', Strategy and Leadership, 30.6, 2002, pp5 - 12

The staff who are charged with imagining the invented competitor's strategy should also be encouraged to go beyond the likely strategies of announced or prospective market entrants.

The analysis and thinking involved in inventing competitors may be especially appropriate when one or more of the following marketplace circumstances prevail:

- An organisation senses that both it and its key rivals are stuck in the rut of their historic strategies;
- rivals have initiated a diverse range of strategic initiatives but without any noticeable success;
- a number of emerging and potential technology changes may enable new strategies to emerge;
- developments in a set of related products or markets might enable a single firm to enter these product markets or to compete in new ways across some set of them;
- one or more competitors show signs of developing or extending new organisational forms (such as a new way to develop a network-based enterprise).

Invented competitors can be developed and analysed for a variety of specific strategy purposes ranging from the desire to craft a whole new form of strategy to developing and testing the potential of eBusiness to transform a firm's current strategy. The potential uses of the tool are discussed below.

New form of strategy - a firm wanted to explore whether it would be possible to devise a whole new form of strategy in and around a specific product domain. That is, could a hypothetical rival build solutions that have not yet appeared in the marketplace (and are not expected to do so in the next few years) and deliver them in a totally new way?

eBusiness - a subgroup within a business unit developed an invented competitor with a strategy that was totally eBusiness driven as a way to demonstrate the gap between the firm's current strategy and what a "true eBusiness driven strategy would look like.

Entering a related product segment - a technology leader on one product sector develops an invented competitor to show what strategy would be required to enter the "small end" of its current dominant product line.

The search for a new product - a consumer goods firm in the women's healthcare market invented a competitor to investigate what might be required by way of new products that would dramatically outperform existing products.

A potential substitute product - a firm in the computer components business invented a competitor that would develop a new substitute product using current and emerging technologies.

Challenging the current strategy - a number of firms have developed invented competitors for the specific purpose of "attacking" their own current strategies (and thus pointing up undetected weaknesses and vulnerabilities).

Are some types of competitive advantage used more frequently than others?

Another important dimension in creating good marketing synergy is defining the competitive advantage. Research shows that new products with a clear competitive advantage are more frequently successful than those that are not.

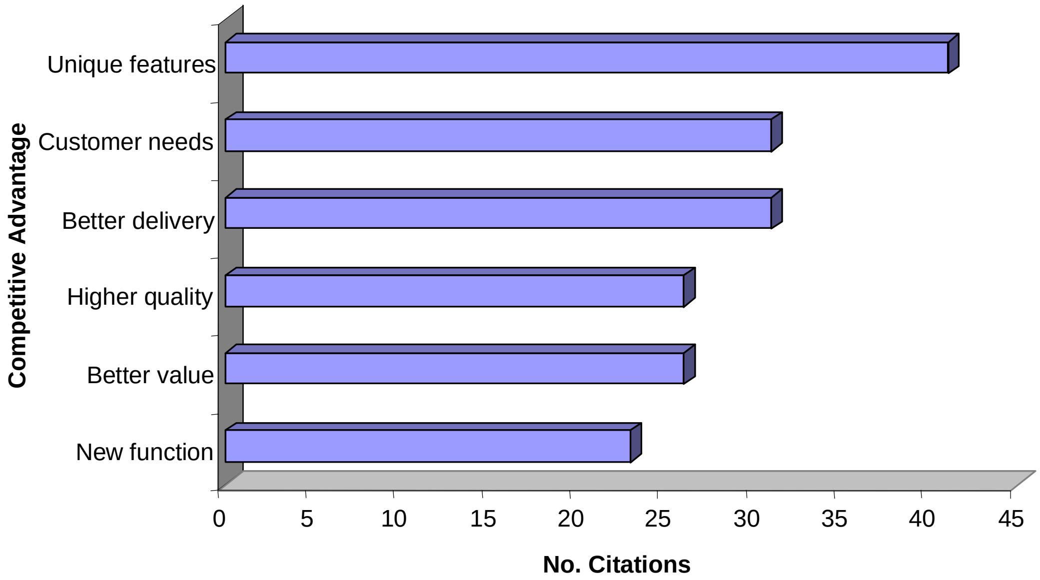
We measured six types of competitive advantage that are commonly built into new products:

1. Offering unique features, attributes or benefits to the customer.
2. Meeting existing customer needs better.

3. Doing something customers could not do before (introducing a new function).
4. Delivering higher quality (however quality is defined in this market).
5. Delivering better value for money.
6. Delivering better quality of service and support.

The following figure shows that 50% of the new products surveyed were considered to have some unique product feature that separated them from the competition, while substantially less (35%) products were developed to deliver better value.

Figure 4.11: The importance of competitive advantage factors



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Are different competitive advantages used for different types of innovation?

Table 4.12: Are different competitive advantages used for different types of innovation?

	Features	Needs	Newness	Quality	Value	Service
New product, new market	21%	13%	15%	18%	15%	18%
New product, existing market	28%	23%	11%	12%	12%	14%
Modified product, new market	13%	13%	13%	25%	25%	13%
Modified product, existing market	20%	23%	13%	13%	14%	19%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The competitive advantages of new products were compared with the type of innovation. The following chart summarises the modal values of the column percentages in the table above.

Figure 4.12: Competitive advantages of new products compared to the type of innovation

	New Market	Existing Market
New Product	**New to Company** New product features	**Product Innovation** New product features Meet new needs
Existing Product	**Market Innovation** Superior product quality Superior product value	**Process Innovation or product modification** New product features Better service delivery

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

New product features are important for all types of innovation except market innovation, where of course the product is not modified but the market is. With market innovation, the key competitive advantages are delivering superior quality and value – i.e. meeting existing market needs better than competitors can. With process innovation, new products tend to be developed not only with product modification, but also an intention to deliver a better service.

Competitive advantage by market environment

Table 4.13: What types of competitive advantage are used in different market environments?

	Growth	Changing needs	Dominant competitor	Competitive	Price intensive
Features	24%	23%	24%	20%	20%
Needs	19%	19%	20%	22%	20%
Newness	13%	11%	12%	14%	13%
Quality	13%	15%	13%	15%	16%
Value	15%	19%	18%	15%	16%
Service	16%	13%	13%	15%	15%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The table above shows that developing new product features remains important regardless of market environment. However beyond this there are some differences worth noting. In rapid growth markets, new products tend to be developed to meet new customer needs as they emerge. Where customer needs are changing rapidly, new products tend to be designed to deliver greater value.

Figure 4.13: Where customer needs are changing rapidly, new products tend to be designed to deliver greater value

Market Characteristic	Main competitive advantages
Rapid growth	New product features New customer needs
Changing needs	New product features New customer needs Superior value
Dominant competitor	New product features New customer needs
Many competitors	New product features New customer needs
Price competition	New product features New customer needs

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Types of competitive advantage that are more successful than others

Table 4.14: Are some types of competitive advantage more successful than others?

	Features	Needs	Newness	Quality	Value	Service
Volume sales	61%	65%	78%	65%	62%	68%
Profit	73%	76%	83%	73%	73%	81%
Create opportunities	78%	76%	78%	88%	88%	77%
Achieve objectives	71%	81%	74%	81%	81%	77%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The four keys to successful NPD

1. Improving sales volumes
2. Improving profitability
3. Creating strategic opportunities
4. Achieving strategic objectives

Cross-referring competitive advantages with measures of performance yields the table above. By comparing the row percentages, we can get a picture of the competitive advantages that tend to be associated with the different measures of success. These are summarised in the table below. This shows that products that were able to deliver newness (something that could not be done before) are more likely to deliver volume sales and profitability. Products that deliver better quality and value tend to be good at achieving strategic objectives and creating strategic opportunities.

It is interesting to note that while most new products are developed to deliver competitive advantage with new features, it is other types of advantage such as uniqueness, quality and value that are associated with success.

Figure 4.14: Competitive advantages associated with the different measures of success

Performance Measure	Competitive Advantage
Increasing volume sales	Newness
Increasing profitability	Newness Better service
Creating strategic opportunities	Better quality Better value
Achieving objectives	Meet new needs Better quality Better value

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Chapter 5

Creating and Managing a Market-Driven NPD Process

Chapter 5 Creating and Managing a Market-Driven NPD Process

Summary

- The majority of survey respondents said they had insufficient resources for marketing research.
- 100% of all respondents who engaged in an intensive planning stage for new product development also cited complete success in achieving their strategic objectives, while only 69% of those who engaged in a low intensity planning stage cited success on the same measure.
- Banks are having to re-think themselves as consumer brands and become aware of how customers experience their services.
- Projects that feature solid up-front homework more than double their success rates from 39% to 82%.
- Many project failures arise from deficiencies in the pre-development stages as insufficient time and money is spent on the up-front tasks in the typical new service. The prevailing paradigm is this: generate an idea, do a minimum of pre-work, and move it directly to development.

Introduction

Innovation is more than coming up with good ideas; it is the process of putting them to practical use. There are countless examples to show that simply coming up with a good idea is not enough to secure a winning product. The jet engine, the hovercraft, even radar technology were all developed to a commercial level and brought to market by organisations that did not invent them. In this chapter we identify the critical success factors in day-to-day new service development. These are the activities that occur within projects that differentiate winning new services from losing ones.

The chapter compares and contrasts research into the NPD process with an industry opinion survey that examines the use of such processes in a variety of firms around the globe.

Critical steps for success: the project factors

What are the keys to developing successful new services? The activities can be categorised in the following nine steps:

1. Do solid up-front homework before the project proceeds to development.

2. Adopt a strong marketing orientation and include the voice of the customer in every aspect of the project.

3. Create high quality, cross-functional teams.

4. Adopt fast paced parallel processing to shorten cycle time.

5. Leverage core competencies.

6. Strive for unique, superior service.

7. Seek service market fit.

8. Deliver top quality service with frontline expertise.

9. Invest in a quality launch.

We explain how management can use these critical activities to improve success rates and profitability of new services.

Do solid up-front homework before the project proceeds to development

The up-front homework – the tasks that precede the actual development phase – is vital to success. Projects that feature solid up-front homework more than double their success rates from 39% to 82%. There are major differences between successful and unsuccessful project in terms of the quality of work, most notably in the homework, or predevelopment stages. These stages include the preliminary assessment, market research, and business analysis.

Simply stated, the steps that precede the development phase make all the difference to winning. Many project failures arise from deficiencies in the pre-development stages as insufficient time and money is spent on the up-front tasks in the typical new service. The prevailing paradigm is this: generate an idea, do a minimum of pre-work, and move it directly to development. The new paradigm should be: generate an idea, do all of the steps in the pre-development phase, then move the project to development – if and only if it still looks like it will be a winner.

Lack of time is often cited as an excuse for avoiding the up-front detail.

The benefits of up-front homework are discussed below:

- Homework improves the chances for success;
- homework actually reduces time to market as it leads to clear project definition. One of the greatest time wasters in development projects is that the service specs keep changing. This is analogous to trying to score a goal when the goalposts are constantly changed;
- the planning process will highlight problems before they become expensive or hard to fix. The worst time to be making changes to a service or to a system is when the new service has been launched.

The homework stages should include activities such as initial screening: market, customer, and competitive studies; technical, systems, and operations appraisals; and financial analysis. Homework results in a business case that is based on fact rather than speculation. Insist on solid up-front homework and ensure that no major project enters development missing vital information. Be sure the project definition is developed from solid information.

First stage of homework

Up-front homework, often a missing ingredient in new service projects, means building in a "first cut" or preliminary investigation stage, involving these activities:

Preliminary market assessment: this is a quick scooping of the marketplace to assess market existence, probable market size and expected project definition.

Preliminary technical assessment: this is a quick appraisal that will propose a systems solution, map out a probable route, and assess development cost, times, and risks. This work is largely conceptual and uses technical literature, a vendor search, in-house systems expertise, brainstorming and creative problem solving sessions, a review of competitive solutions, and experts outside the firm.

Preliminary business assessment: this is a quick financial analysis (for example, to estimate payback period) based on very rough estimates of sales, costs, and investment required. It also includes a cursory legal assessment and a quick risk assessment.

Second stage

For larger and more complex projects, many firms build in a second, detailed investigation stage prior to development. The second stage often includes these activities:

- Detailed market studies and market research;

- user needs-and-wants studies: personal interviews with prospective customers to determine needs, wants, and preferences; performance requirements; and a definition of the customer's wish list;
- value-in-use studies: assessment of anticipated customer benefits;
- competitive analysis: a detailed look at competitors' offerings, pricing, bases of competing, and performance (e.g., share and profitability);
- concept tests: tests of the proposed service (in concept form) to gauge interest, liking and purchase intent, and price sensitivity to estimate expected sales;
- detailed technical assessment: this is a more thorough activity to assess systems feasibility, identify likely systems solutions, deal with technical risks, and assess operations and delivery requirements (route, costs, and profitable expenditures);
- detailed business assessment: these tasks define the business proposition and provide the business justification for the project, as well as dealing with potential roadblocks and risks. Tasks here can include a detailed financial analysis, business risk assessment, and legal and regulatory assessments.

Adopt a strong market orientation and build the voice of the customer into every facet of the project

There is a direct correlation between incorporating customer feedback into the NPD process and project performance. When marketing and market research activities are executed well, success rates rise to around 80%; when these marketing actions are poorly done or, worse yet, omitted altogether, success rates drop dramatically to around 20%.[xiii] The efforts undertaken include preliminary market assessment, detailed market studies, marketing research, customer tests and trial, sell or test marketing.

Here are some ways to build in the voice of the customer:

- Preliminary market assessment – a quick scanning of the business environment;
- market research to determine user needs and wants;
- competitive analysis-assessment of competitors' services, pricing, and performance
- value analysis – determining the economic worth of your service to the customer
- concept testing- gauging purchase intent long before you commit financial resources to development
- customer reaction and feedback during development
- user tests and field trials – validate the commercial product
- test market or trial sell – especially in the case of higher risk and mass-market services
- market launch on a solid marketing plan.

How do you ensure that your process is decidedly market-orientated?

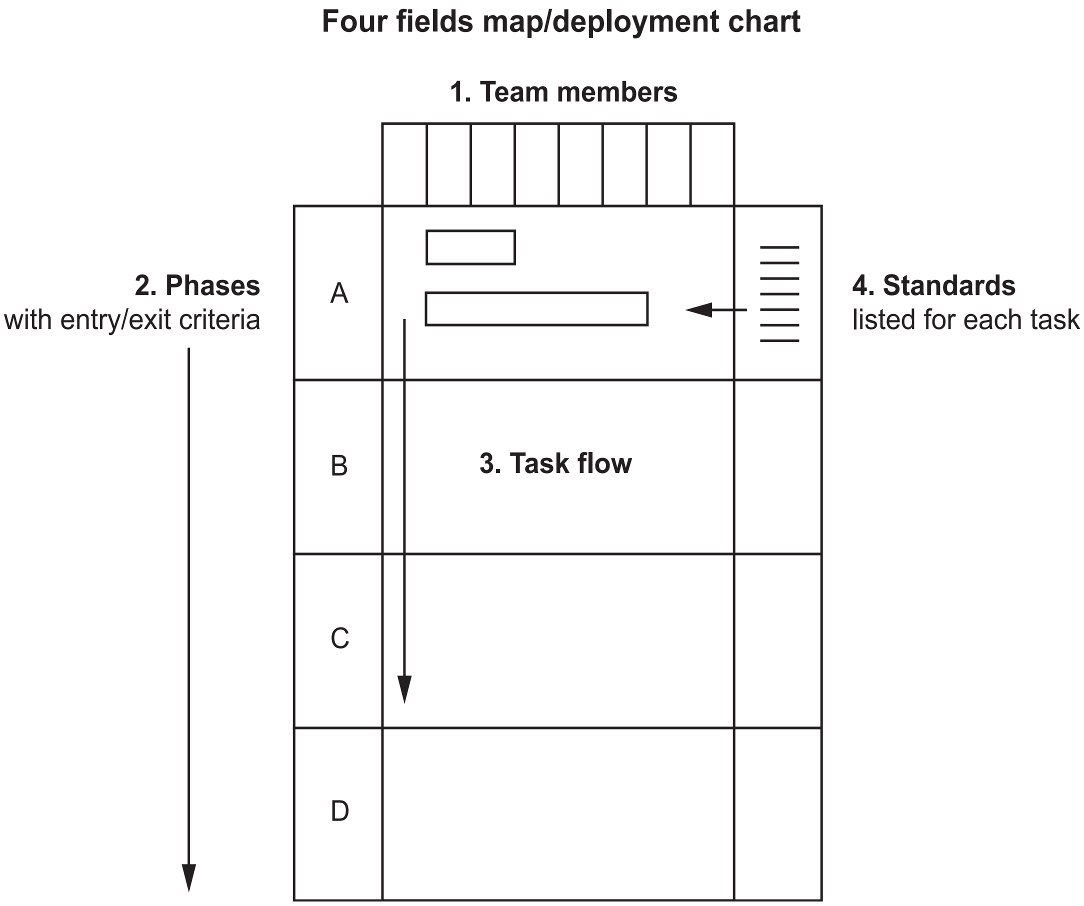
1. The key marketing tasks above should be *designed into your process.* In many businesses, they are not.
2. A fully qualified leadership team must give the go-ahead to the marketing actions and ensure that they are delivered.
3. Make the marketing resources available to project teams.

Four fields mapping is a useful graphical system[xiv] that can be used to ensure tasks that are allocated to each team member are executed in a timely and satisfactory manner. As shown in the figure below it depicts four information fields:

[xiii] COOPER RG and EDGETT SJ, 'Product Development for the Service Sector', 1999

- The team members;
- the logical phases of an activity;
- tasks to be performed including decisions made;
- the standards that apply for each task.

Figure 5.15: Four fields map/deployment flow chart



Source: DIMANCESCU D, (1995) The Seamless Enterprise, Making Cross Functional Management Teams Work, Wiley, New York

Business Insights

[xiv] Source: DIMANESCU D (1995) The Seamless Enterprise, Making Cross Functional Management

A project’s organisation boils down to two things: the quality of the project team and the extent to which the project team is truly cross-functional. Both elements can have an impact on a project’s outcome.

Characteristics of a high-quality project team

- The team leader is dedicated to one project at a time (as opposed to trying to lead many projects, or having a myriad of other assignments). Very often a team leader is spread too thinly across too many projects or has too many other duties to run projects effectively;
- high-quality teams interact and communicate frequently with regular update meetings, progress reviews, and problem resolution sessions;
- decisions made by outsiders (outside the team, but inside the company) are handled quickly and efficiently. In organisations where this seems to work, it is usually the result of proficient team actions. For example, the team is able to do whatever internal marketing, communication, and persuasion is necessary to get outsiders on board and to deliver quick, efficient decisions.

Employing truly cross-functional teams

The cross functional team should comprise members from all affected parts of the company, be it operations, systems, marketing or some other area. In other words, the team has the required skills, and the team membership represents all the key functional areas that will influence the project’s success.

An accountable team leader should be designated as being responsible for moving the project forward. Project leaders are responsible for the project from beginning to end, as

Work, Wiley, New York

opposed to being responsible for only one phase of the project or having project leadership change hands many times during a project's life.

The team structure is not rigid: people can be added and dropped as the requirements of the project change. But the team still has an unchanging core of responsible, committed and accountable team players from beginning to end.

Team members should also be allocated sufficient time to complete their tasks. The result will be a better-run project with a team that is more efficient and a project that will move through the development process in a more timely manner.

Adopt fast-paced parallel processing to shorten cycle time

Project teams face a dilemma. On the one hand they are urged by senior management to compress the cycle time – to shorten the elapsed time from idea to launch. On the other hand, they are urged to improve the effectiveness of new service development – to cut down the failure rate and do the project right. This desire to "do it right" suggests a longer, more thorough process.

Parallel processing is one solution to the need for a complete, high-quality process, yet one that meets the time pressures of today's fast-paced business world. Traditionally, new services have been managed by means of a sequential approach: each task performed after another, in sequence. Parallel processing contrasts with the sequential approach, as it entails many activities taking place concurrently. Three or four activities are done simultaneously, each by different members of the project team. In this scenario, there is less chance for an activity or task to be overlooked or handled poorly because of lack of time.

Consider how you can build parallel activities into your process. Ensure that you are leveraging the strength of your team and using them to develop your new services as fast as possible.

Attack from a position of strength: leverage core competencies

In this context, synergy is the ability to leverage the strengths and competencies of your organisation in your new service. Thus, there is a good fit between the needs of the project and the resources, skills, experience, and core competencies of the company. The success rates of organisations that do not capitalise on their synergies are much lower – about a quarter that of the most successful organisations Indeed, marketing synergy is *the number one success factor* that separates the very top-performing new services from the more modest successes.

The areas where leveraging core competencies is found to be the most important are the following:

Marketing

- The new service fits or leverages the company's sales force and channels resources and capabilities;
- there is a strong fit with existing advertising and promotional skills and resources;
- marketing expertise and resources are leveraged;
- there is a strong fit with in-house market research capabilities.

Operations

- The new service fits with company service delivery systems;
- there is a good fit with existing human resource capabilities;
- the new service can use or rely on existing operations facilities.

Management and financial

- The new service leverages existing financial expertise and resources;
- the new service leverages current management expertise, skills, and preferences.

These synergy criteria should be used in the selection, rating, and ranking of projects. If a project rates poorly on some or most of these synergy criteria, it is probably heading for trouble. Synergies become key criteria for making decisions on whether projects should proceed or be cancelled and for obtaining focus. But if synergies are lacking in some areas and the project is still to proceed, every effort must be made to shore up the deficiencies. For example, you might consider a partnering relationship, perhaps with a software firm that possesses the technology or operations capability you lack. Or you might partner with another organisation that owns a critical distribution channel or sales force where you might be weak. If you proceed in the face of lacking synergies – if there is a poor fit between your competencies and resources and requirements of the project – expect a much rougher road than if the synergies are there.

Strive for unique, superior services

One of the top success factors is found within the new service itself: The service must truly delight the customer. Winners have *differential, superior services* that provide excellent value to the customer.

It sounds simple, but many organisations find this difficult to achieve.

In the following example, consider how First Direct introduced an innovative change to the way it issues statements so that their customers are presented with graphical illustrations showing where their money is being spent. All stages of the innovation were considered form the customer's point of view and the use of a pilot launch minimised risk and allowed for product modifications.

Case study: First Direct

In 2003 First Direct piloted a new **online banking** service that uses graphs and pie charts to show customers where they have spent their money.

This "spending analysis" service takes the information from a customer's monthly statement and turns it into charts representing spending patterns, so that customers can study their expenditure patterns at a glance.

The lifestyle budgeting tool, which will be free to online customers, can also show how spending patterns have changed compared to previous months.

The bank sees this as a step towards a new generation of customer-friendly online banking services, giving customers an eye-catching and visually appealing way of getting a clearer picture of their finances.

Customers will be able to see how much of their spending pie chart is swallowed up by the mortgage, credit card payments, phone bills or cash machine withdrawals. The bank is hoping it might act as a spur for customers to take a firmer grip on their finances and see where they can make savings.

Customers are also provided with a spending analysis service to see how close they are to the "typical" expenditure pattern of someone of a similar age living in the same postcode.

Among the average spending patterns identified by the bank, we take out £2,300 from cash machines each year, put £3,000 through credit cards and donate £157 to charity. A third of all monthly current account statements show spending on DIY and home improvement.[xv]

This First Direct service is going to be offered to about 75,000 of the bank's Internet customers on a trial basis, with plans to roll it out later to all of its 570,000 online customers.

[xv] Sear COUGHLAN, ‘Who’s Swallowed all the Pie Charts’, The Guardian, 6December 2003

Apart from being a practical way of looking at the bigger picture of how we spend our money, it is also a step towards a much more visually appetising way of looking at money.

"People are busy and they expect information to be at their fingertips and this is a way of letting people see an instant picture of their financial lives. We already have the information about all their transactions, so it's a case of giving it back to customers in a way that's useful to them," said First Direct spokesperson Alison McMinn.

The spending analysis service is a way of presenting an account in terms of a customer's life, where they shop and their own priorities, rather than in the impersonal, ledger-book style of traditional banking. It is yet another shift towards the idea that personal finance is more and more about lifestyle and that it should be presented with the same retail sensibilities that are found in other services.

When Abbey relaunched, it sent out a catalogue of products to customers, which looked more like it had come from a furniture/home improvement store than a bank. Supermarkets such as Tesco have brought a retail edge to financial services with instant insurance that you can buy at the checkout.

Egg spokesperson Mark Maguire says that banks have to re-think themselves as consumer brands and to be aware of the "customer experience" of using their services: "Money is an everyday object - it's not just reserved for a group of hobbyists. And the interfaces with customers have to reflect that. In the past, financial services have failed miserably in talking to customers in a way that brings money to life."

He points to the way that a once dull financial topic such as property has already experienced the same image makeover. "If you'd have said that 15 years ago there would be dozens of television programmes about maximising the value of your property, people would have laughed."

Constructing a superior service

Five components of superior service are listed below:

1. Deliver unique or superior benefits to customers.
2. Provide better value for money than previously available services.
3. Feature a better service outcome than competitive services.
4. Are more reliable with fewer fail points.
5. Have a higher-quality image.

Note that each one of these ingredients of superiority is defined from the point of view of the customer.

Here is how to build in superiority by design rather than by chance in every new service project you undertake:

- Before development begins, figure out what a superior and differentiated service really is;
- undertake a detailed user needs and wants study;
- do a thorough analysis to determine competitors' service strengths and weaknesses;
- test and verify the service concept throughout development and beyond;
- use the five ingredients of a superior service (above) to rate and rank would-be projects through every stage of the process. After all, these are among the strongest correlates of profitability;
- build these items into your screening criteria at the various stages in your new service development process;
- use these criteria to pick your next project winners;
- insist that project teams deliver evidence of service superiority at every decision point.

These action items are strongly linked to positive financial performance and reinforce the need for solid up-front homework and building in the voice of the customer. The following case study considers how detailed customer research enabled the HSBC to develop an award-winning product with its DriverQuote service.

In 2003 HSBC won the Institute of Financial Services Innovation Award for the Most Innovative eDelivery Channel for its DriverQuote service. The service enables fleet managers and company car drivers to get quotes and order vehicles online.

This follows the Fleet Innovation Gold Award given to HSBC for DriverQuote by the leading fleet and business car magazine, Fleet Week, earlier in 2003.

Case study: HSBC DriverQuote

HSBC DriverQuote is a sophisticated but easy-to-use vehicle quotation system that takes the burden off fleet managers and allows company car drivers to compare vehicles according to different categories, such as emissions, price or fuel consumption according to their own organisation's car policy.

HSBC's innovation for business customers achieved further success at the Awards, with its Business Internet Banking service winning the overall Grand Prix Winner-of-Winners prize and Best Internet Banking Service title.

Since its launch over 255 companies have committed to installing HSBC DriverQuote, which equates to a fleet size of nearly 51,000 cars. Some of the UK's largest fleets, including AT&T, Coca-Cola Enterprises and the Co-operative Wholesale Society are already using the system, following highly successful pilots.

Unlike other quotation systems, HSBC DriverQuote can be configured online to match a company's tightly defined car policy by: setting the allocation criteria by price, fuel type, CO_2 value, whole life costs, or engine size; restricting optional extras; reflecting negotiated manufacturer trading terms; and ensuring drivers only produce quotations appropriate to their grade or allocation.

Drivers can research the latest vehicle information and source instant quotations together with the financial implication for them in terms of contribution or tax. Once drivers have made their final decision and the fleet manager has authorised the order, HSBC will place an order within 24 hours.

Lorraine Lea, head of ifs\BT Financial Innovation Awards, said: “The judges decided to award HSBC Vehicle Finance with the Most Innovative eDelivery Channel for 2003 because of its innovative design and clear focus on the needs of the customer.”

Tim Holmes, head of HSBC Vehicle Finance, said: “The award for HSBC DriverQuote is a great tribute to our staff - they listened to our customers and understood their needs and then delivered a world class solution that drastically reduces the fleet manager’s workload, empowers drivers and brings down the cost of motoring for the business.”

Seek a service-market fit

Closely paralleling service superiority as a key driver of performance is service-market fit. Companies that achieve this fit offer services that:

1. Clearly satisfy a customer or user need.
2. Respond to important changes in customer needs and wants.
3. Correspond to existing customer operating systems, values, and desires.

An analysis of the impact of service-market fit yields dramatic conclusions. New services that feature high service-market fit – the top 20% on this scale – are more than five times as successful, and achieve their profit objective much more so, than new services, with poor service-market fit. Many companies are particularly weak here.

This importance of fitting new services to the market cannot be stressed enough. Building in the voice of the customer, conducting the up-front homework, and constantly testing iterations of the service with the customer are necessary steps if service-market fit is to be assured. Further, like the elements of service superiority, the three components of service-market fit can also be used as screening and project rating criteria.

Deliver top-quality services with frontline expertise

The expertise of the personnel who produce and deliver the service is a major key to success. Service expertise is analogous to production and product quality for physical products: It captures the degree of professionalism and training of personnel who will deliver the service. It is vital for two reasons:

1. Service production and consumption occur simultaneously, unlike the process for physical products. As a result, service quality, delivery quality, and expertise of personnel are virtually synonymous. A poorly trained or uninformed frontline person will ruin the experience for the purchaser and thus destroy the sense of quality, from the customer's point of view, of an otherwise well-conceived service.

2. Services are intangible and it is more difficult to assess the "quality of the product" before purchase. It is frequently the firm's service expertise and image that the customer buys. Customers base their purchase decisions less on service functionality or attributes than on the perceived expertise of the frontline personnel.

New services that are rated highly in terms of service expertise are one that company experts play an important role in producing and delivering. They are also the ones in which frontline and operations personnel are highly trained and skilled.

High service expertise is generously rewarded: the top 20% of new services in terms of service expertise have 3.6 times the success rate as those lacking expertise. Among the very top-performing (the most profitable) new services, *superb customer service* is the number four driver of performance. [xvi]Very profitable new services are ones through

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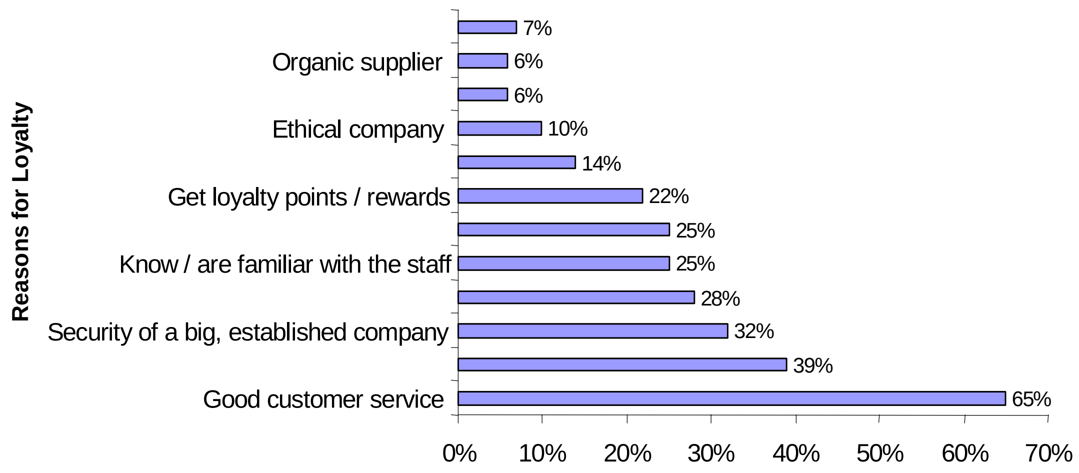
[xvi] COOPER R and EDGETT S, 'Product Development for the Service Sector', 1999

which the customer is served in a prompt, friendly, efficient, and courteous manner, by knowledgeable staff. Furthermore, there is a direct correlation between excellent service and customer loyalty as illustrated in the following figure.

Figure 5.16: Reasons for customer loyalty



Source: The Henley Centre, Planning for Consumer Change 2003 Business Insights

Frontline and the behind-the-scenes operations personnel very often *are* the service. Professionalism and expertise, training, and knowledge are absolutely critical to success. Make this element a vital part of your market launch plan: No service goes to market without the right frontline and operations people, the right skills, and the right training in place.

Case study: Newcastle Building Society

The following example illustrates how Newcastle Building Society capitalised on the expertise of its branch staff to improve the service offered to customers with telephone enquiries. The example shows how the firm avoided some of the major problems encountered by firms in the service sector when customer service levels drop at times of peak demand.

As with most financial services organisations, a growing proportion of Newcastle's customers prefer to do business on the phone or Internet. Unlike many of its competitors who have responded by closing branches, Newcastle is turning its branches into a virtual call centre with the use of modern IT, especially customer-relationship management (CRM) systems.

At certain times of the day branch staff with the right skills become call centre agents.[xvii] The system routes inquiries suited to their areas of expertise and training to them.

”Virtualisation" is aimed at offering a better service to customers, more opportunities for staff and a chance for the building society to grow by more than 10% a year.

Newcastle is Britain's thirteenth biggest building society, with assets of £2.8 billion and nearly 800 staff. It is still very much a mutual, describing itself as "a friendly, caring organisation that takes customer loyalty seriously, gives value for money along with contributing to the current and future well being of the community". Although most of its branches are in the north east of England, geography is no obstacle to the business. It was one of the first building societies to launch an online savings account.

The customer-relations technology programme began in 1997 as part of a campaign to improve the entire range of customer transactions with the firm. In 2003 the society upgraded its wide-area network to enable it to distribute calls to branches, and also allowed staff to work from home with voice over IP telephony, which combines telephone calls and data.

Workflow software and a wide-area network mean the society is able to identify which of its branches have spare capacity, and to make use of it.

[xvii] Michael Cross, The Guardian, Business Case Study: Newcastle Building Society, 19th February 2004

"Virtualisation" reduces the problem of designing a call centre: whether to have enough staff to deal with the absolute peak, which is uneconomical, or risk keeping your customers waiting. The solution was to distribute calls across the wide-area network using voice over IP telephony.

Staff workload has not necessarily increased, as many were experiencing ‘quiet’ hours when there was little to do. The telephone calls are a sales opportunity, so it enhances the job and offers staff an incentive to earn extra cash. The workflow software allows the society to identify skilled staff and reward them.

All this is part of Newcastle's tradition of IT innovation. It was one of the first building societies to introduce an online savings account and the first building society to offer an interactive mortgage application facility on digital TV. The society also won an award for interactive Webster character "Ask Avril"; a virtual assistant to help online customers with questions about offset mortgage accounts.

Since the new system was introduced there has been a significant reduction in the number of abandoned telephone calls. For "service calls" - inquiries from existing account holders - the target was to deal with 90% in one call. The target has already been exceeded and there has also been a reduction in the time required to handle a call.

The IT system has paid for itself, but not in the traditional way, which is by cutting staff numbers. Instead, the system has enabled the society to increase revenue and to run operations, such as processing mortgage applications, for other societies. The additional revenue is estimated at £350,000 a year - well above the £200,000 a year needed to make the investment worthwhile. Meanwhile, the society does more business because customers find it easier to get through. In addition it has contributed to 10-15% growth a year without additional resources.

The importance of a quality service/product launch effort

New services featuring a superb launch – the top 20% – have a success rate of 81%. By contrast, services with poor launches – the worst 20% – have only a 30% success rate. When a team of researchers measured the ingredients of well-executed launches and correlated them with project success and profitability, they discovered the following:

- Top performers have marketing launch plans that are carefully crafted and very detailed. A formal promotional and marketing communications programme with sufficient resources backing the initiative is part of the plan;
- all staff understand and fully support top-performing new services. The services have been extensively marketed internally before launch to both frontline and field sales people to ensure full 'buy-in';
- customer contact staff possess the necessary knowledge, marketing, and selling skills before launch. Frontline service personnel receive extensive training on the service;
- the winning new service has been thoroughly tested for design problems prior to launch.

Too often, these vital launch ingredients are missing. Many new services are rolled out without adequate frontline personnel training: in some cases key personnel are barely aware of the service. Often there is no formal marketing, communications, and advertising plan, and often the service has defects at launch time. The results are predictable: a misfire in the marketplace.

The marketing plan is a key part of the new service development process, and it must begin early in the life of a project. The marketing plan must be approved and supported by senior management, ensuring that there is alignment among all functions, including field sales and operations people. If key frontline personnel have not been trained, or if they lack enthusiasm for the new service, do not expect it to be a winner.

The marketing plan must deal with all facets of the launch (advertising, promotion, training, and communications), and it must encompass both external and internal marketing. Finally the launch must be adequately resourced. Too often, well-developed services are left to limp into the marketplace, simply because selling and promotional resources are not there.

In one bank, a new-tiered interest account aimed at providing a “special break” for smaller businesses was rolled out with very little internal communications and almost no training of frontline personnel. Lacking information, many of the account managers misunderstood the service and its intended positioning. They began selling the offering to their largest clients instead. As a result, the bank ended up paying millions of dollars in interest payments on cash balances in accounts that had previously been interest-free. The lack of sales-force training and communication proved a costly lesson.

One vital ingredient of pre-launch activities is testing. Your new service development process must ensure a seamless delivery effort with no defects. Our observations suggest there is a need for more and better internal and external testing built into the pre-launch stage. This could be called a “validation stage.” Does your process include a validation stage?

Respondents to the industry opinion survey conducted for this report were asked specific questions about their NPD process. Questions included: did the development of this product follow a managed process; what resource deficiencies are more common when developing new financial products and what parts of the process, if any were outsourced.

NPD typically follows a managed process

Most NPD processes for financial products follow a managed process. No reasons were supplied for the 20% of companies that do not engage in full planning activities. The absence of proper planning is dangerous for several reasons:

- The distinct possibility that the firm will schedule too much work and fail to meet customer requirements;
- the absence of proper scheduling systems may prevent firms from investing in sales and promotional activity to fill the order books during quiet periods;
- the tendency to ignore key issues concerning projects until it is too late;
- the creation of project goals that are out of line with organisational objectives;
- tendency to allocate resources on what Peter Drucker[xviii] referred to as ‘investments in managerial ego’ i.e. projects that may yield little benefit but have an emotional attachment for the manager or director promoting them;
- the failure to limit the scope of projects, allowing activities that bear no relation to customer value to continue unchecked[xix].

Table 5.15: Number of companies following a managed NPD process

(MANAGED PROCESS)	Number of respondents	Percent
Yes	53	80%
No	13	20%
Total observations	66	100%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Outsourcing NPD

The sub-contracting or outsourcing of activities has become popular in recent times. Typically, arguments for outsourcing are framed in terms of strategic focus, but in practice most arrangements are based on the potential to save costs: suppliers are likely to have lower overheads and variable costs and may benefit from economies of scale.

[xviii] Drucker P, (1955) Management, Butterworth-Heinemann, Oxford
[xix] Adapted from Maylor H 2003, Project Management, Pearson education

How much of the NPD process is outsourced?

The industry opinion survey revealed that most NPD projects are outsourced to some extent, although 44% of projects are done completely in-house. Most organisations are not equipped to manage the full NPD process. To succeed, a specialist team must be organised, which is then managed to strict deadlines. Often the new product will involve technology that is unfamiliar to the company, and if the market is new as well, there will be lack of knowledge about the market too. Against this background, many companies decide to outsource parts of the new product development process; giving them access to specialised knowledge that is not available in-house.

Table 5.16 shows that smaller companies tend to outsource more of their NPD, whereas the larger companies prefer to keep more in-house. The industry opinion survey revealed that most NPD projects are outsourced to some extent, although 44% of projects are done completely in-house. The table shows that smaller companies tend to outsource more of their NPD, whereas the larger companies prefer to keep more in-house. Developing new products requires a wide range of resources, often with specialised knowledge. Smaller companies are less likely to possess these resources, and are therefore more likely to outsource parts of the new product development process to compensate for this deficiency.

Table 5.16: How much of the NPD process is outsourced?

(OUTSOURCED)	Number of respondents	Percent
All	0	0%
Some	37	56%
None	29	44%
Total observations	66	100%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

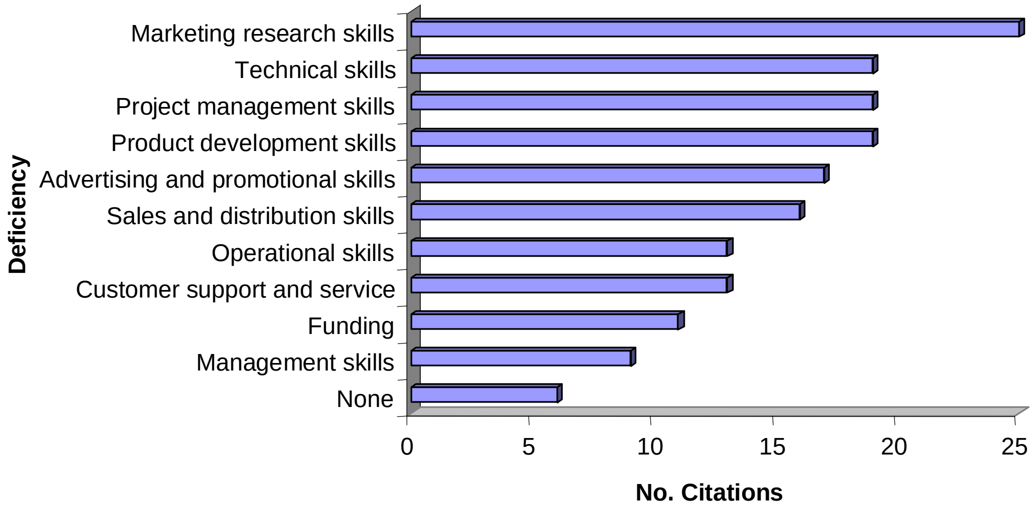
Table 5.17: Is outsourcing NPD more common to a certain size of business?	Some	None	Total
Small	83%	17%	6
Medium	74%	26%	19
Large	43%	57%	35

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

What resource deficiencies are more common when developing new financial products?

Marketing research is the major deficiency in the NPD process. Interestingly funding the process does not figure as being a major deficiency.

Figure 5.17: Resource deficiencies in the NPD process



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Table 5.18: Small businesses tend to outsource NPD process more frequently	Some	None	Total
Small	83%	17%	6
Medium	74%	26%	19
Large	43%	57%	35

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The planning stage of the NPD process

Are new product planning and development activities recommended by the research associated with success?

Adding together each activity cited created measures of planning and development activities. So, for planning activities, respondents scored between 0 and 6 as there are 6 planning activities measured. Development activities scored between 0 and 5.

Both measures showed a significant correlation with success at achieving strategic objectives.

(planning r = 0.58, development r = 0.55)

Thus while good planning and managed development practice may not ensure success in terms of revenue or profit, it can ensure that strategic objectives are met, which may be the measure of success that is most important.

Apart from the obvious point that good planning and management ensures that objectives will be achieved, this result also validates the planning and development activities measured as being relevant to the development of financial products.

The following table illustrates the levels of planning and development intensity in the survey sample. The table shows that 100% of all respondents who engaged in an intensive planning stage to new product development also cited complete success in achieving their strategic objectives, while only 69% of those who engaged in a low intensity planning stage cited success on the same measure.

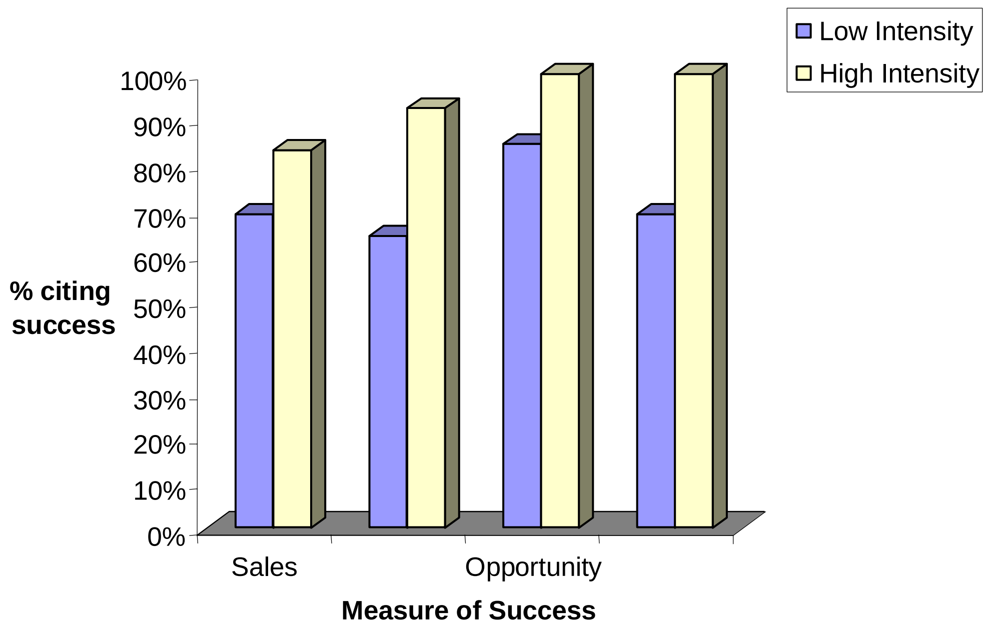
Table 5.19: Planning levels and performance

	Performance Measure			
	Sales	**Profit**	**Opportunity**	**Objectives**
Planning Intensity				
Low	69%	64%	85%	69%
Moderate	77%	90%	90%	89%
High	83%	92%	100%	100%
Development Intensity				
Low	73%	90%	81%	86%
Moderate	79%	86%	100%	86%
High	75%	75%	100%	100%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

While there is no particular pattern for development activities; there is a strong tendency for the chances of success in achieving strategic objectives to increase with planning intensity. There is a similar but weaker pattern for the chances of success with sales and profitability to also improve with planning intensity. This point is illustrated in the following figure.

Figure 5.18: NPD success and the level of planning intensity



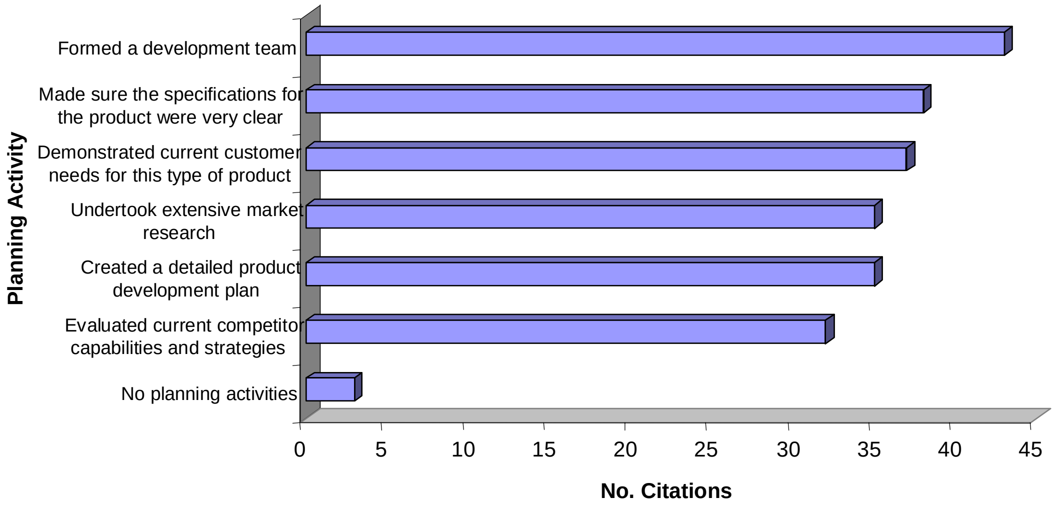
Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Planning preparation

The figure below illustrates that certain activities are critical in the planning of an NPD project. It also shows the extent to which these planning activities take place.

The results show that over 50% of respondents formed a development team. Of least importance is evaluating current competitor capabilities and strengths.

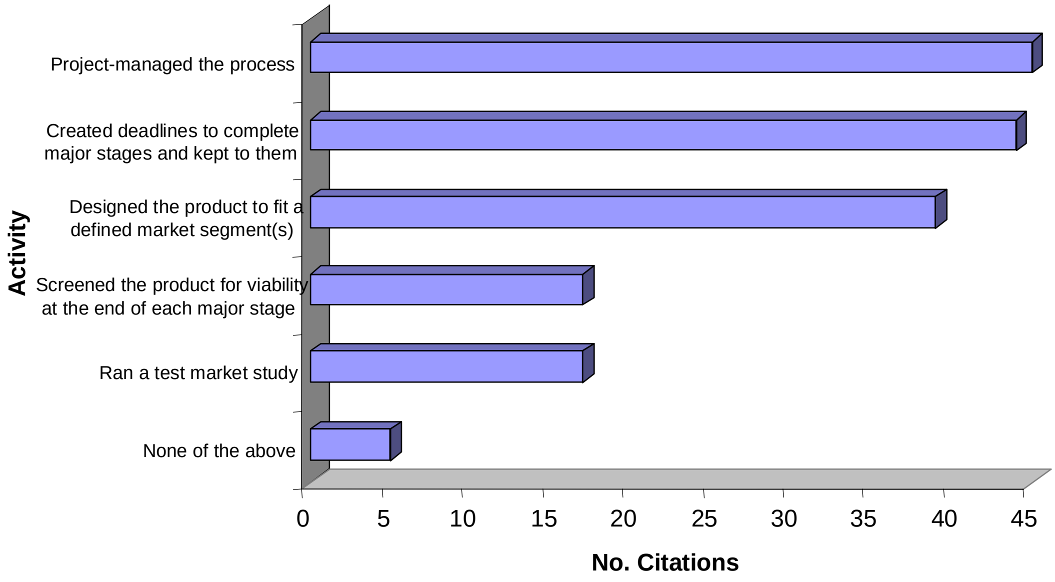
Figure 5.19: What preparation is undertaken for developing new products?



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Two important activities are commonly associated with NPD: screening the product at various stages of the process to ensure it continues to meet its intended objectives and running a test market study. These may be more important for manufactured products, and the results show that for financial products they are less important than other activities.

Figure 5.20: What activities are undertaken during new product development?



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Chapter 6

Marketing Communications for New Products

Chapter 6 Marketing Communications for New Products

Summary

- There are two special problems associated with intangibility for financial services: in making the product difficult to grasp mentally, it compounds the already complex consumer decision-making process when purchasing. Second, it means that products cannot be displayed or demonstrated to customers, posing problems in the advertising and trial of products.
- Brand building in the finance industry is essential to ensure survival. Why? The successful entry of powerful non-financial brands into the market, capitalising on their strong brand identities and deep customer relationships, is forcing financial institutions to examine the worth of their own brands and the coherence of their brand strategies.
- Financial brands are unsuccessful because they are not placed high on the agenda, fail to embrace change, fail to involve staff in key decisions and do not have a significant point of difference from competitors.
- Using a new product for <u>brand building</u> works best when there is a dominant competitor
- Using a new product to <u>improve positioning</u> works best when customers' needs are fairly static.

Introduction

Communication is the most visible or audible or marketing activities, but its value is limited unless it is used intelligently in conjunction with other marketing efforts. Unlike manufactured goods, services are intangible; they comprise deeds, processes or performances that cannot be assessed using any of the physical senses. A prospective purchaser of a product such as a television can examine it for physical integrity, aesthetic appearance, sound and visual quality. Many advertising claims relating to these tangible properties can be verified by inspection prior to purchase. On the other hand, services have no tangible properties that can be evaluated prior to purchase. Thus they are difficult to evaluate. In this chapter we consider the difficulties financial services firms have experienced in their communications strategies and present survey findings of the strategies that have been most successful for new products.

Implications for branding

There are two special problems associated with intangibility for financial services: in making the product difficult to grasp mentally, it compounds the already complex consumer decision-making process when purchasing. Second, it means that products cannot be displayed or demonstrated to customers, posing problems in the advertising and trial of products.

Marketers often try to overcome these problems by incorporating tangible features in their service offerings. Many financial services, for example, contain tangible elements on which the service can be judged or evaluated, such as the branches, ATMs, account statements and promotional literature. If the bank wishes to convey the idea that its services are quick and efficient, it could concentrate on a bright, clutter-free interior in its branches. Office equipment, such as computers, desks and staff uniforms should look modern. The bank's advertisements and other communications should suggest efficiency, with clean and simple designs and carefully chosen words that communicate the bank's positioning. If these factors create the impression for the consumer that he/she is receiving a service that is reliable, professional and efficient, then the chances of creating a long-term relationship with customers increases. Although brand strategy has long been associated with manufactured goods, it is assuming increasing importance in services because a strong brand can enhance consumer trust of the invisible purchase.

Brand building in the finance industry is essential to ensure survival. Why? The successful entry of powerful non-financial brands into the market, capitalising on their strong brand identities and deep customer relationships, is forcing financial institutions to examine the worth of their own brands and the coherence of their brand strategies.

The importance of brands

By the time you sit down at your desk this morning, you will have been exposed to hundreds of brands: toothpaste, underwear, cereal, tea, newspaper, and billboards, even the back of your travel ticket. Switch on your computer and the influence continues. We live in a brandscape where an increasing proportion of our lives are mediated by brands.

Brands have become a political battleground in which they represent huge power. Firstly, they are worth a lot of money. The physical assets, the bricks and mortar, now represent a small fraction of the company's value. Far more important is the perception millions of consumers have of the company. Reputation is worth millions because in a highly competitive market, it brings you loyal customers and good staff. When Ford bought Jaguar, it was estimated that the physical assets were only 16% of the value; when Vodafone bought Orange they were only 10% . [xx]

Secondly, research and surveys repeatedly show that brands generate more trust than any institution - government, church, and politicians all fall before the credibility of some brands. Many brands show a remarkable ability to bypass our cynicism; people have great affection and loyalty to them and will pay over the odds for the logo. The argument runs that a successful brand - Swatch or Calvin Klein - offers consistency of quality, a point of certainty in an uncertain world; insecure, we latch on to the familiar and the predictable. So we use brands and we decode other people's use of brands to establish their status. We no longer identify with churches, political parties or even our local community; we construct our sense of who we are through our association with

[xx] ‘The New Gods’ Madeleing Bunting, The Guardian, July 9, 2001

brands - from football teams to TV channels, from designer jeans to the make of car, from coffee shop to cosmetics.[xxi]

When the question arises as to whether branding serves a purpose for financial services. The answer is undoubtedly 'yes'. The justifications are found in the increasingly competitive environment that institutions are facing: competition from both traditional and new financial service providers. The diversification of established consumer brands, such as Marks and Spencer, Tesco's and Sainsbury's mean that consumers can now purchase car loans along with their lamb chops, soap powder and groceries. This competition, along with the rise of merger and acquisition activity, has increased the need for financial institutions to manage customer perceptions of who they are and what they offer.

There are many benefits of branding, which are experienced by both the seller and the buyer. Strongly branded products can command a premium price of 30% or more. Moreover, successful brands can be stretched to promote new products, as Richard Branson has successfully done by extending the Virgin label from recorded music to transport to financial services. Successful brands establish an emotional pact between the supplier and the buyer that creates the basis for an ongoing relationship. This ongoing relationship is of paramount importance to financial services that are typically long-term in nature and rely on a continued customer commitment. Other benefits are summarised below.

[xxi] 'The New Gods' Madeleine Bunting, The Guardian, 9th July 2001

Table 6.20: The benefits of branding – to the buyer and the seller	
To the buyer	**To the seller**
Product identification	Product awareness
Shorthand cue of product features and benefits	Helps introduce a new product
Distinguishes products of similar type	Secures demand
Reduced buyer search time	Enables repeat purchase
Increases buyer assurance	Fosters brand loyalty
Assists in quality evaluation	Enables premium pricing
Offers psychological reward	Provides equity value
Brand association	Offers proprietary brand assets

Source: Tina Harrison, Financial Services Marketing, 2000 Business Insights

Despite the obvious importance of branding, there is evidence to suggest that the financial services sector produces few successful brands.

Prof. Leslie de Chernatony, Director of the Centre for Research in Brand Marketing at the University of Birmingham, and Susan Drury, Research Fellow in Services Brands, have conducted research in seven leading Financial Services Organisations (FSOs) across the country to conduct a new in-depth study of the key factors that are critical for brand success.

The Building and Sustaining Successful Services Brands study, which was conducted over a period of eight months, reveals the many FSOs surveyed could do more to achieve brand success, i.e. enhance reputation, have a stronger emotional brand with their customers and engender greater consumer trust. Findings show the organisations' brands are unsuccessful because they do not place brand high on the agenda, fail to embrace change, fail to involve staff in key decisions and do not have a significant point of difference from competitors.

Prof. de Chernatony, said: "It was surprising to find that out of these leading financial services organisations only a couple had achieved brand success and that few of them realised the importance of branding.

"However, it's encouraging to see that following our research many of the organisations valued our recommendations - and we look forward to seeing an increasing number of successful financial services brands. Only when corporations understand the link between a strong brand and financial success will we see more powerful brands."

During the study, Prof. de Chernatony and Susan Drury conducted 83 in-depth interviews at all levels, from the Chief Executive/Managing Director to customer services staff. The study shows that, out of the seven organisations surveyed, two are demonstrating successful branding strategies, one is a challenger/new entrant who thinks differently about branding and four have less successful brands. Some of the initial findings reveal organisations with successful financial services brands:

- Are driven proactively by brand;
- have a more egalitarian approach, and work with and listen to both staff and consumers;
- capitalise on their culture, which is supportive and congruent with the brand
- recognise and sustain the uniqueness of the brand through customer service/front line staff;
- have a more consistent view about the brand throughout the organisation;
- have a CEO and senior management who reinforce the brand and who are interested in and inspirational to staff have meaningful and genuine brand values which are continuously reviewed.

How successful are marketing communications for new financial products?

The success of a new product depends upon the way it is marketed during the launch. Respondents in the Industry opinion survey were asked to evaluate the success of five communications objectives that were used for the launch of their products.

1. Explaining the key benefits to the target market.

2. Raising awareness about the new product.
3. Staying consistent with the overall marketing strategy.
4. Building a new brand.
5. Creating a clear market position.

The hardest part of marketing communications for new financial products is building a new brand.

Table 6.21: Rates of success with marketing communications strategies

No. citations	Unsuccessful	Successful
Consistent strategy	38%	62%
Explain benefits	45%	55%
Build awareness	46%	54%
Positioning	46%	54%
Build brand	58%	42%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Actionable recommendations for marketers to improve the success rates of their brand building activities

By either looking through previous market research reports, or by putting yourself in the position of a buyer, write down the four main reasons, in order of importance, why one of your company brands is being purchased. Then show an advertisement for this brand to one of your buyers and ask them to identify the four key points they took from the message. If the results from the first and second part of the exercise are the same, your brand is correctly appealing to customer choice criteria. Any discrepancy is indicative of inappropriate brand marketing.

Write down the core values of one of your brands and ask other members of your organisation to do the same. Compile a summary of the replies and circulate the findings, asking for comments about (a) the reasons for such varied replies and (b) which core values your company is trying to emphasise. Repeat the exercise until a consensus is reached.

Having identified your team's views about the core values of your brand, ask them to write down (a) what your brand communicated with your company's relationship with the customers and (b) an evaluation of how well the different resources supporting the brand are satisfying the relationship objective. Collate the replies and consider how well your team appreciates your brand propositions.

Using your list of brand values, estimate how long it would take a competitor to buy in resources which would help it copy each of these values.

For each of the benefits that your brand represents, write down how it will be supported by each element of the marketing mix. [xxii]

How successful are marketing communications for different types of new product?

Marketers need to be clear about their goals; otherwise, it will be difficult to formulate specific communications objectives and select the most appropriate messages and communication tools to achieve them. Common communications objectives for services businesses are[xxiii]:

- Create memorable image of company and its brands;
- build awareness of and interest in an unfamiliar service or brand;
- build preference by communicating the strengths and benefits of a specific brand;
- compare a service with competitors offerings and counter competitive claims;
- reposition a service relative to competing offerings;

[xxii] Creating Powerful Brands, CHERNATONY L and MCDONALD M, 1995
[xxiii] Adapted from LOVELOCK C and WIRTZJ, 'Services Marketing' 2004

- stimulate demand in low-demand periods and discourage demand during peak periods;
- encourage trial by offering promotional incentives;
- reduce uncertainty and perceived risk by providing useful information and advice;
- provide reassurance e.g. through the service guarantees;
- familiarise customers with service processes in advance of use;
- teach customers how to use a service to their own best advantage;
- recognise and reward valued customers and employees.

To find out whether certain marketing communications strategies work better for different types of innovation, we compared the levels of success for marketing strategies with the type of innovation they were marketing. For new products, all communications strategies tend to be more effective in established markets than in new markets. The one mild exception to this is with brand building, which seems to have more success in new markets.

Table 6.22: Communications objectives

Percent of respondents who considered communications objectives a success by innovation type.

Communications Objective	New product, new market	New product, existing market	Modified product, existing market
Explain benefits	50%	76%	31%
Build awareness	57%	75%	33%
Consistent strategy	40%	67%	36%
Build brand	57%	43%	28%
Positioning	50%	59%	27%

* Note modified product in new market omitted because of low numbers.

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

The communications objectives measured are best suited to new products for both new and established markets.

Figure 6.21: Communications objectives by innovations type

	New Market	Existing Market
New Product	**New to Company** Build awareness Build brand	**Product Innovation** Explain benefits Build awareness
Existing Product	**Market Innovation**	**Process Innovation or product modification** No objectives are clearly successful

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Defining successful marketing communications

The percentage of respondents who cited a communications strategy as being successful for different types of market conditions is demonstrated below. For example, the communicating benefits in a slow growth market was only cited as being successful by 25% of those who used the strategy, whereas it was cited as successful by 72% of respondents who used it in fast growing markets. Explaining benefits is therefore considered more successful in fast growing markets than in slow growth markets.

Table 6.23: Are some marketing communications more successful in certain market conditions?					
Market Growth	**Explain benefits**	**Build awareness**	**Consistent strategy**	**Build brand**	**Positioning**
Slow	25%	56%	63%	20%	33%
Fast	72%	55%	66%	48%	59%
Dominant competitor					
No dominant	44%	38%	63%	30%	50%
Dominant	64%	68%	62%	56%	65%
Changing customer needs					
Static	63%	44%	63%	36%	71%
Changing	62%	71%	58%	56%	55%
Many competitors					
Not many	54%	31%	50%	33%	55%
Many	54%	60%	67%	38%	43%
Price Intensive					
Not intensive	54%	46%	54%	50%	55%
Intensive	52%	68%	67%	47%	58%

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Actionable conclusions

- The best strategy to use in fast-growing markets is to explain the benefits;
- the best strategy to use when customer needs are changing rapidly is to build awareness;
- when there are many competitors, use a new product as part of a consistent strategy;
- using a new product for brand building works best when there is a dominant competitor;
- using a new product to improve positioning works best when customers' needs are fairly static.

Table 6.24: Communication strategies for launching new products in different environments

Market Environment	Communications Strategies
Market growth	Explaining benefits and positioning works best in fast growing markets.
Changing customer needs	Building awareness works well in markets with rapidly changing customer needs.
One dominant competitor	All strategies work reasonably well when there is a dominant competitor in the market.
Many competitors	Building awareness and staying consistent with overall strategy work well when there are many competitors.
Price competition	Building awareness and staying consistent with overall strategy work well when there is intensive price competition.

Source: Author analysis

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Chapter 7

Differentiating between Winning and Losing New Financial Services Products

Chapter 7 Differentiating between Winning and Losing New Financial Services Products

Summary

- The competitive advantage that works best for increasing sales volumes and profitability is doing something customers could not do before (newness). For creating strategic opportunities or achieving strategic objectives, delivering better quality or value for money work best.
- Around 75% of all new financial products take more than six months to develop.
- The most common strategic objective is that of improving revenue or developing new income streams.
- Most new products are developed with a competitive advantage based upon offering unique features, attributes or benefits to the customer.
- The greatest perceived resource deficiency in developing new financial products is with marketing research skills. Lowest deficiencies are in management skills, funding and customer support.
- The NPD process for financial product may be improved by running a process that screens the development of new products and also runs a test market study.

Introduction

For the final analysis the aim is to pinpoint the activates that help to ensure the success of a new financial product. The survey measured four ways a product can succeed. The names in brackets are variable names, to help with interpreting Figure 7.22.

1. Sales volumes (PERFVOL)
2. Profitability (PERFPROF)
3. Creating strategic opportunities (PERFCRTE)

4. Achieving strategic objectives (PERFACHV)

In addition, we measure six factors that individually or together could explain the success or failure of new products on each of these dimensions of success:

1. Time to develop the new product (PTIME_T)
2. Deficiency in necessary resources (RESOURCE)
3. Planning intensity (NP_PLANN)
4. Development intensity (NP_ACTIV)
5. Marketing communications effectiveness (COMS_INT)
6. Quality of customer services (S_INEN2)

Figure 7.22 shows correlation between the factors that could explain success for failure of new products and the measures of success. There are four diagrams showing the correlations between the six factors with each measure of new product success. The top-left of the four diagrams shows how well the six factors correlate with the sales volume performance measure (PERFVOL). The blue bracket next to the two factors S_INTEN2 (Quality of Customer Services) and COMS_INT (Marketing communications effectiveness) indicates that the correlations are significant, or not very likely to be accidental.

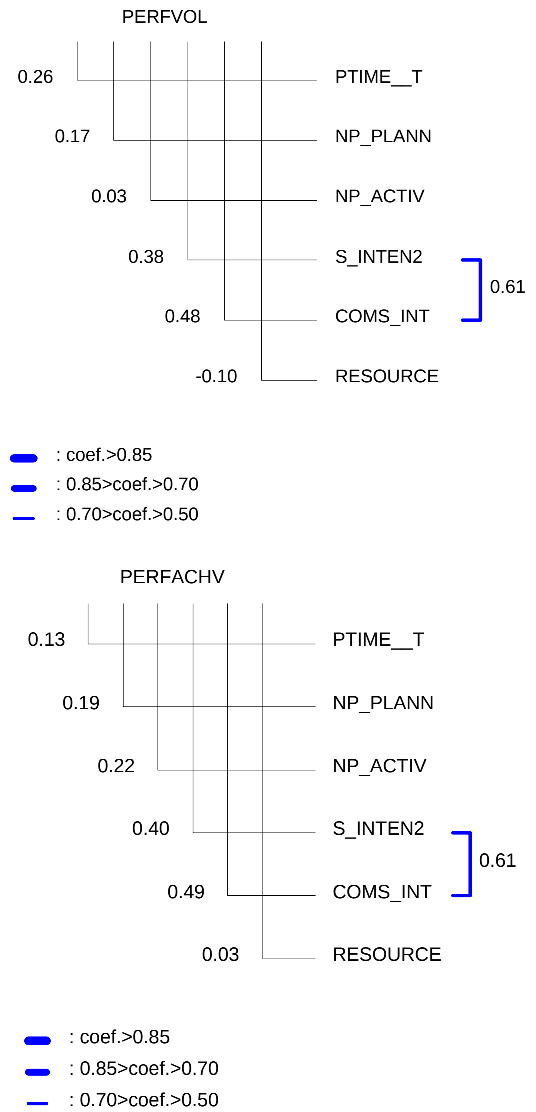
Importantly, the same two factors are significantly and positively correlated with all four measures of performance. This result strongly suggests that the best way to ensure a new financial product is a success is to make sure marketing communications are successful, and make sure good customer service supports it (i.e. the financial service is delivered professionally).

This analysis does not mean that the other factors measured, such as high planning and development intensity, time to market and adequate resources do not play a role in the success of new financial services; although it does suggest that these factors are less important than good marketing communications and good customer service.

A multiple regression analysis was run for each of the four success dimensions, and the correlations are summarised in the diagrams below.

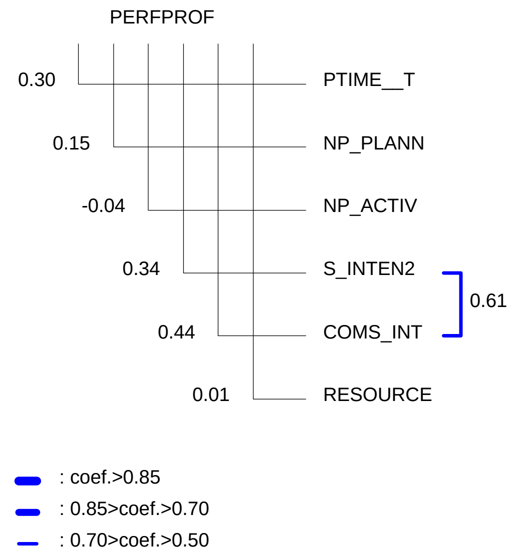
The results show that across all dimensions there is mild, but significant correlation with communications success and service quality for all dimensions of new product success.

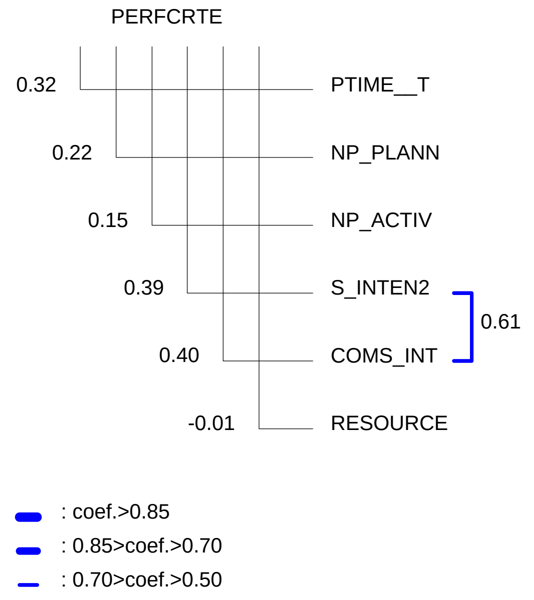
Figure 7.22: Success or failure factors of new products



Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Figure 7.23: Success or failure factors of new products, continued





Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Conclusions

- Just over 50% of the new financial products surveyed were from the credit and insurance sectors;
- 90% of the products surveyed were from medium and large companies;
- most respondents have responsibilities for marketing and R&D;
- about 75% of all new financial products take more than six months to develop;
- larger companies tend to take longer to develop new products than smaller ones;
- the most common strategic objective is that of improving revenue or developing new income streams;
- the objectives most likely to succeed for new products are in helping to build a brand and improving positioning. Least likely to succeed is increasing revenues;
- most new products are developed with a competitive advantage based upon offering unique features, attributes or benefits to the customer;
- the competitive advantage that works best for increasing sales volumes and profitability is doing something customers could not do before (newness). For creating strategic opportunities or achieving strategic objectives, delivering better quality or value for money work best;
- 80% of new products surveyed were the result of a managed process. 56% outsourced some of this process, while 44% kept development entirely in-house. Smaller companies are more likely to outsource their NPD than larger companies.
- The greatest perceived resource deficiency in developing new financial products is with marketing research skills. Lowest deficiencies are in management skills, funding and customer support;

- most companies undertake some planning activities considered important by published research to the success of new products;
- the NPD process for financial product may be improved by running a process that screens the development of new products and also runs a test market study;
- the planning and development activities measured in the study are positively correlated with achieving strategic objectives, and there is some indication that higher planning and development intensity is associated with better performance;
- marketing communications for new product launches were most successful in keeping consistent with overall strategy, and least successful at brand building;
- the success or failure of new financial products is most closely associated with the success or failure of the communications campaign at launch. Success is also associated with the amount of customer service support that is provided;
- the study has confirmed that different types of innovation should be treated differently. These are summarised in the table below.

Different types of innovation call for different approaches

Figure 7.24: Different types of innovation call for different approaches

	New Market	Existing Market
New Product	**New to Company** More than 12 months to launch New market objective New Income stream objective New product features Build awareness Build brand	**Product Innovation** 4-6 months to launch Increase revenues Build relationships New product features Meet new needs Explain benefits Build awareness
Existing Product	**Market Innovation** 4-6 months to launch New income stream Open a new market Improve positioning Superior product quality Superior product value	**Process Innovation or product modification** Variable time to launch Increase revenue Increase profitability Meet new needs New product features Better service delivery

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

Different strategies work better for different market environments

Figure 7.25: Different strategies work better for different market environments

Market Characteristic	Primary Strategic objective	Main competitive advantages	Communications Strategies
Rapid growth	Increase revenue New market	New product features New customer needs	Explaining benefits and positioning works best in fast growing markets.
Changing needs	Increase revenue Increase profit	New product features New customer needs Superior value	Building awareness works well in markets with rapidly changing customer needs,
Dominant competitor	Increase revenue Increase profit New income	New product features New customer needs	All strategies work reasonably well when there is a dominant competitor in the market.
Many competitors	Increase revenue Increase profit	New product features New customer needs	Building awareness and staying consistent with overall strategy work well when there are many competitors.
Price competition	Increase revenue	New product features New customer needs	Building awareness and staying consistent with overall strategy work well when there is intensive price

Source: NPD in Financial Services Industry Opinion Survey, September 2004 Business Insights

In conclusion, there is some evidence to show that new product success rates could be improved if more attention is given to activities aimed at communicating directly with customers. Time and resources put into the sort of planning and development activities cited by research into the NPD process is also likely to be rewarded by greater NPD success.

Appendix

NPD in Financial Services Questionnaire

Sometimes financial services are better thought of as a product, and at other times a service. We have elected to refer to your financial product or service as a 'product' throughout this survey.

This survey is designed to collect information on one product you have been responsible for developing within the last year.

* 1. What is the name of the new product that you have developed?

(All further questions in this survey will relate to your experience with this product)

2. What type of financial product is it?

Depository banking (bank account, savings account, non-deposit trusts, service related to depository banking)

Credit (personal credit, business credit, mortgage, loan)

Brokering (securities, dealership, flotation, commodities, exchange, investment advice, services allied to exchange of securities)

Insurance (life, health, fire, marine, casualty, sureties, titles, pensions, any other)

Insurance agency or brokerage service

Holdings and investment service (bank holding, investment management, investment trust, trusts, other investment-related)

Other (please specify)

3. Please provide a short description of the product

* 4. Approximately how long did your product take to develop to the point of market launch ?

Up to 1 month

1 to 3 months

4 to 6 months

7 months to 1 year

More than 1 year

Strategic objectives

* 5. What were your strategic objectives for developing this product?

Where possible please indicate if these objectives were of primary or secondary importance.

Primary Objective Secondary Objective N/A

Improve the company’s sales revenue

Improve the company’s market share

Improve the company’s profitability

Increase the overall strength of the company’s brand

Improve the position of the company’s brand in a market

Open up a new strategic market area for the company

Develop a new income stream for the company

Improve customer relationships

Respond to a competitive threat

Test a new product idea before implementing on a larger scale

* 6. How would you describe the performance of your product, in relation to the following indicators?

Well below expectations Below expectations As expected Above expectations Well above expectations N/A

Sales volumes

Profitability

Creating strategic opportunities

Achieving strategic objectives

* 7. Which of the following best describes the new product you were involved in developing?

A new product in a new market

A new product in an existing market

A modified product in a new market

A modified product in an existing market

* 8. What are the competitive advantages of your product?

Where applicable please indicate whether the advantage is primary or secondary.

Primary advantage Secondary advantages N/A

Offering unique features, attributes or benefits to the customer

Meeting existing customer needs better

Doing something customers could not do before

Delivering higher quality (however quality is defined in this market)

Delivering better value for money

Delivering better quality of service and support

* 9. Which, if any, of the following areas would have benefited from additional resource during your development of the new product?

Funding

Technical skills

Marketing research skills

Management skills

Project management skills

Operational skills

Sales and distribution skills

Advertising and promotional skills

Product development skills

Customer support and service management skills

None

Other (please specify)

The product development process

* 10. Did the development of this product follow a managed process?

Yes No

* 11. How much, if any, of your product development processes were outsourced?

All

Some

None

* 12. Please tick all those that apply below:

'Before designing the product we...'

Formed a development team

Made sure the specifications for the product were very clear

Undertook extensive market research

Created a detailed product development plan

Demonstrated current customer needs for this type of product

Evaluated current competitor capabilities and strategies

None of the above

* 13. Again, please select all those that apply below.

'During product development we...'

Project-managed the process

Designed the product to fit a defined market segment(s)

Created deadlines to complete major stages and kept to them

Screened the product for viability at the end of each major stage

Ran a test market study

None of the above

* 14. How would you describe the market for this product?

Strongly disagree Disagree Neither agree nor disagree Agree Strongly agree

Fast growing

Has rapidly changing customer needs

Has one or more very dominant competitors

Has a large number of competitors

Is characterised by intense price competition

Product promotion and customer services

* 15. How successful were the marketing communications in respect of each of the following?

Very unsuccessful Unsuccessful Average Successful Very successful N/A

Explaining the key benefits to the target market

Raising awareness about the new product

Staying consistent with the overall marketing strategy

Building a new brand

Creating a clear market position

* 16. How do the following statements rate in terms of your company's priorities for developing and creating customer service to support this product?

Very low Low Average High Very high N/A

We improve customer service by using measures of measures of customer satisfaction

We evaluate and reward front-line staff using measurements of customer satisfaction

We improve customer service through formal consultation with front-line staff

We remove barriers to delivering better customer service using team problem solving methods

We benchmark the quality of our customer service against our competitors' quality of service

* 17. Can you please confirm your email address?

* 18. Please confirm the company you work for and your position within this company?

* 19. What is the approximate number of employees in your company?

Less than 10 10-500 More than 500

* 20. What responsibilities do you have in connection with the development of new products?

Project management General management Marketing Research and Development Financial controller Advisory Other

21. Would you be willing to take part in a short telephone interview to discuss the development of the product in greater detail? If so, please leave your contact details below.

Claim your free Financial Services Executive Summary

To thank you for your time and insight, Business Insights would like to offer respondents a free executive summary from one of our Financial Services reports.

* 22. Please indicate which free report Executive Summary (you are entitled to one per survey response)

Executive Summary - Key Issues in Plastic Cards 2003: Technology comes of age

Executive Summary - Key Issues in UK Personal General Insurance 2003

Key Issues in Plastic Cards 2003: Technology comes of age

To thank you for completing the survey, please click on the link below to download your free executive summary from our Key Issues in Plastic Cards 2003: Technology comes of age report.

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Complete.

Thank you for completing our survey.

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