



New Product Development: How to create an effective product development function in the Financial Services sector

Research White Paper

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Introduction

The problem

The financial services sector often has difficulty in designing and launching products that are both attractive to consumers and profitable. This is partly because consumers have limited interest in FS products, but is also because the FS sector does not carry out product management as effectively as other business sectors.

Purpose

The purpose of this Research White Paper is to:

- Explain the process of innovative New Product Development
- Demonstrate product development techniques from other business sectors
- Explain the product management processes of greatest importance in FS

Approach

The approach has involved:

- Collation of detailed information about product development practices encountered within financial services organisations, based on a combination of original research and extensive client work across numerous countries
- Explanation of relevant concepts and methodologies
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering financial services companies the opportunity to see how the recommendations would apply specifically to an organisation like their own

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Commercial context: why effective product development matters

FS organisations are often too concerned with the technical aspects of their financial operations to consider what customers really need...

There are many reasons why product development in financial services is more difficult than it first appears. The products are heavily regulated, requiring specialist legal advice. They are often technically complex, requiring specialist development skills. Unlike many products and services consumers buy, FS products are generally unwanted, and are bought simply as a means of acquiring something else – a holiday, peace of mind or a house. Financial services is not a sector that consumers find exciting, or generally even find interesting.

Problems that FS firms make for themselves

These issues are largely unavoidable, they apply to the FS sector as a whole, and they all cause problems for an organisation trying to make itself attractive to consumers in a crowded marketplace. However, financial services organisations tend to create further difficulties for themselves which are entirely avoidable. The FS sector tends to be poor at genuinely understanding its own customers: what they like and don't like, how they choose and use FS products, and what would actually make their lives easier. FS organisations also have a particular tendency only to refer to each other: they tend not to look outside their own competitor group (and in many cases hardly look beyond their own organisation); and they very rarely look outside their own sector.

They also find difficulty in overcoming their own organisational issues. FS organisations have large and complex operational structures and, while this is by no means unusual among large firms, it causes FS firms to prioritise their own operational needs first, and the needs of their customers and salesforce second. At the heart of this is a feeling that the customer, and the need to attract the customer, is not central to the way FS organisations operate – whereas it is absolutely central to the operation of many successful organisations in other business sectors, and a small number within FS itself.

The importance of effective product management

In a new market, a growing market or a market offering large and sustainable profit

margins, none of this would matter. However, in the current financial services sector, particularly as it recovers from the economic crisis, it is becoming essential that FS organisations find a more attractive, more profitable and better differentiated product offering. Their competitors are struggling with the same financial pressures and profit margin issues, and customers are concerned about their own situation and about the stability of the FS sector.

Product development is therefore not simply a question of finding a new way to offer customers an old story. It is certainly not, in the current business climate, a question of offering similar products to every other firm at a cheaper price. There are six distinctive skills that are becoming essential for FS organisations if they are to create a profitable product set:

The six distinctive skills for effective product management

- Understanding your own customers, and customers who do not currently do business with you
- Designing products of genuine interest to customers, linked to the way they lead their lives
- Understanding and optimising product pricing
- Creating a coherent product set
- Making the organisation easy to do business with
- Marketing the products effectively

In simple terms, FS organisations need to do better. It should not be acceptable to be selling products that do not have a personal appeal; that add no ‘value’ to the customer; that are sold without any meaningful future communication; and that are not central to the customer’s life. The long-term success of any business, whether in financial services or not, depends on its ability to remain profitable through changing customer demand, by understanding changing market trends and evolving when necessary – and by acquiring and keeping the customers who value the product and the organisation that provides it.

A more ambitious view of the customer

At a basic level, therefore, FS organisations need to approach product management with a much stronger understanding of what financial levers to pull, and need to structure themselves to deliver the desired customer experience more effectively – and the processes necessary are described in several of the sections below. However, a target outcome should be a product development process which has a much more ambitious view of the customer.

The FS sector is a market that seems very tired: companies have the same strategic issues, use the same tactical responses, and the market as a whole is deeply unimpressive to customers. This is the opportunity – a chance, especially in the light of recent market pressures – to create a new message for consumers who are