Developing the Right Product, the Right Way, at the Right Time

> ***Innovation is not the product of logical thought, although the result is tied to logical structure.***
> Albert Einstein

Product Management is about targeting a specific market or customer segment with the right product and service proposition. A key element is developing innovations that keep the offering competitive and ideally differentiate positively against competitors. Product Management represents the lifeblood of future success, but also requires an assessment of commercial risks involved in any product or service change. For example, moving into a new market with a new product or service offering is a high-risk activity, and success is rare. Equally rare is successful development of a product offering that fundamentally changes the value proposition within an industry (e.g., Internet banking). Such new innovations require deep financial commitment.

Product Management is also looking to find the right balance between fee-based services and interest rate related charges on products such as loans or mortgages. While working closely with Marketing, a key consideration is to understand the customer requirements. Being clear on the customer needs and defining the product/service solution that delivers key benefits is a critical success driver within Product Management. The additional challenge is defining the price value relationship that drives growth and customer satisfaction.

Economic, demographic and industry cycles set the context for the importance of innovation, and its role within Product Management. In fast-growing market segments, product change and adaptation is part of the competitive race, and significant investments are likely. In mature markets, where growth has slowed, the commoditized context will push Product Management less towards innovation and more towards designing cost savings into the offering. Nevertheless, new developments can help slow the rate of market commoditization and protect margin erosion. These are likely to be incremental, and small advantages can differentiate a leader from less successful followers.

Product Management is a combination of opportunity identification, evaluation, and new product and service implementation. A pipeline of incremental and more innovative changes will help determine the bank's future financial performance and ability to identify organic growth opportunities. Three significant barriers prevent it from delivering the required product changes in the most effective way

Barrier 1: ***Lack of information to determine strategy requirements***

Evaluating the impact of product and service changes is difficult without access to several sources of information, both internal and external. The insights from these multiple sources need to be integrated into a commercial framework that offers granular clarity and strategic assurance. Product Management takes the "size of prize" discussion in Marketing further into product and service specifics. For example what mortgage or loan proposition could the bank design for a given age profile, say, below 30, that accounts for their current and future life stage needs? For those who feel the pinch of financial pressures when life expenses exceed earnings, banks could offer creative solutions to alleviate initial payments. However, product innovation embraces risk. The odds are stacked against continual success, and executive expectations need to be managed carefully.

Measuring financial performance is vital, but interpreting success too rigidly may lead the bank to miss innovation opportunities. It is better to define and measure drivers and development milestones that affect the pipeline of new initiatives. Similar to a portfolio investment strategy, these metrics allow for more opportunities (and therefore more failures), but let you know when to "fail fast" to satisfy the overarching net income or growth goal.

Only a few product initiatives make it through to financial success. What resources need to be invested in a given initiative? What human capital skills are required? Does the initiative impact internal processes and require infrastructure changes? These costs will need to be evaluated and often incurred before there is any assurance that revenue targets will be achieved. The tolerance for calculated financial failure regarding new initiatives will vary by institution. Certain initiatives will be seen as more strategic and critical, while others will not be as important. A portfolio approach to new initiatives will help prioritize resource requirements, expectations, and risk tolerances.

Product Management will need support from Marketing and Sales into product and service trends as well as insight into customer segment behavior. Equally the function will need to work with Finance and Risk Management with regards to the offering. Financial engineering and solutions that leverage the balance sheet or external specialist providers are increasingly critical to innovation success. Strategic considerations will have an impact, for example, leveraging the bank's branch network to focus more on mortgage or loan generation and securitizing these through external specialists. Only by integrating all these business inputs and information sweet spots can you achieve a well developed new initiative.

Barrier 2: ***New product and service initiatives lack the integrated business process information needed to develop targeted, comprehensive product offerings***

Product Management decisions affect and rely on Marketing, Sales, Finance, Risk, Operations, and other business departments. Without appropriate visibility, departmental barriers may get in the way and stymie the Product Management process. By monitoring the appropriate performance drivers, combined with appropriate incentives, you can improve the Product Management process from idea generation to alignment on priorities to engaging Finance, so the value of new initiatives is understood and forecast.

Barrier 3: ***Inability to measure and analyze the drivers of success***

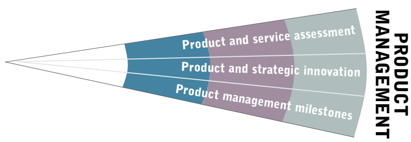
New initiatives depend on timely action, but are hampered and even blocked by the lack of clarity and calculated assurance that any resource investment will lead to a sufficient reward. *What are the drivers of success? Have they been measured, evaluated, and communicated effectively?* Risk is part of the development process. Past failures are not necessarily negative; they may actually assist the development process. Failures can become stepping stones toward success. The key is to understand what drives success and failure. When new initiatives reach a certain milestone, the department may consider working with Marketing to test the product proposition in the market. The feedback you require will determine the means you select: selective customer input, larger external research, or a limited territorial launch.

No amount of testing guarantees success. Making the "go or no go" decision requires information sweet spots to allow the business to decide whether it needs more resources to improve the new offering, or if the cost of delay—in either lost revenue or lost competitive advantage—means the product initiative must launch now.

From a Gamble to Controlled Product Management

Product Management combines many cross-functional requirements, balances risk, learns from failures, then both adjusts and develops new product and service initiatives in a timely and effective manner. Accurate information is a key enabler of this process.

The Product Management process combines three key decision areas with associated information sweet spots:



- **Product and service assessment ➔** What is our value proposition, and does our product and service portfolio meet customer and market requirements?
- **Product and strategic innovation ➔** Which strategic initiatives and product/service gaps are addressable with the available resources, and what are the associated risks?
- **Product management milestones ➔** How do we manage priorities, goals, and timing, and monitor risks as they change?

Product and Service Assessment

There is an ebb and flow to any products and services in terms of their relevance, competitiveness, and financial performance. Product Management must manage this life cycle by adapting and innovating the product and service proposition where possible. The first key step in this process is to understand the "what."

The spectrum and variables are broad and cross-functional. For example, Risk Management may ascertain that interest rates are likely to decline, leading to a re-assessment of mortgage and loan pricing. What are the various scenario implications? Or a new channel such as Internet banking and the associated customer segment, young professionals, could offer Product Management an opportunity to re-design and tailor the service towards a convenience offering. In fact, convenience is likely to be a key theme for any bank, as this represents a key customer behavior driver. However, identifying new ways of making life easier for the customer with more flexible offerings needs to be balanced against process costs, risk implications, and resource and infrastructure considerations.

GOALS	METRICS	DIMENSIONS
Product & Service Opportunity ($) Market Gap ($) Product & Service Risk Score (#)	Product & Service Achievability New Products/Services in Market ($/%) New Product/Service Suggestions (#) Competitive Score (#) Est. Development Cost ($) Income Share Gain ($/%) Market Transaction Volume (#) Market Transaction Volume Share (%)	Fiscal Year Quarter Month Market Segments Market Segment Micro-Segment Services Product Line Service Sales Channel Partners Sales Channel Type Sales Partner Sales Organization Sales Region Sales Territory Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Product Management	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance	Executives			•
	Analysts		•	
Sales	Executives			•
	Analysts		•	
Marketing	Executives			•
	Analysts		•	
Customer Service	Executives			•
	Analysts		•	
Operations / Production	Executives			•
	Analysts		•	

The product and service assessment serves as a gap analysis to prioritize the various improvement options and the associated financial scenarios. Initiatives to adapt the current offering or more fundamental innovations represent a pipeline of future revenue opportunities to sustain the bank's competitiveness and net income growth. New initiatives also have an impact on Marketing, as these bring "new news" to your customers. New news fuels the marketing machinery, a significant way to excite and capture attention and customer mindshare. This decision area will not only identify gaps, but determine what effect these changing factors have on cash, credit, balances, etc. The more up-to-date and dynamic the monitoring of these changing factors, the quicker the ability to identify new opportunities and capitalize on these for the benefit of the bank.

Product and Strategic Innovation

This decision area takes potential opportunities identified by the product and service assessment and examines the practicalities in more depth. It answers questions about the costs, resources, and benefits of implementing new initiatives and innovations. It also offers more granular clarity in terms of benefits, strategic fit, how achievable these initiatives are given available resources, and the risk of failure. Innovation runs the gamut from incremental improvements to a significant strategic shift. For example a strategic decision to extend the branch network with the associated up-front investment implications, against a backdrop of competitors cutting their branch networks, will require a detailed understanding of the rationale in terms of customer gains. New derivative products will also be considered in cooperation with Risk Management to determine the risk/reward profile and relative fit with the bank's portfolio.

GOALS	METRICS	DIMENSIONS
New Product & Service Developments (#) New Product & Service Income ($/%) New Product & Service Cost ($/%)	Product – Service Achievability Score Implementation Cost ($) New Product – Service Income Potential ($) Potential / Actual Revenue ($/%) Implementation time (#) Product & Service Risk Score (#)	Fiscal Year Quarter Month Market Segment Market Segment Micro-Segment Services Product Line Service Sales Channel Partners Sales Channel Type Sales Partner Sales Organization Sales Region Sales Territory Org. Code

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Operations / Production				
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Whatever the innovation, you must measure the time to market, implementation difficulty, external factors, technical improvements, and financial scenarios, e.g., the value-added return on net capital. These metrics also help you prioritize threats and opportunities. For example, by classifying the initiatives into short-term and long-term priorities, or by measuring the difficulty of implementation, you limit the attention on impractical blue-sky projects at the expense of what's needed in the short term. Future scenario valuations with estimates of the upper and lower limits on revenue and net income growth will help define the relative priorities.

As a decision area, portfolio and strategic innovation recommends which opportunities are right for the business by aligning with other departments, particularly Marketing and Risk Management.

Product Management Milestones

This decision area is used to manage the innovation process. It establishes milestones, manages and adjusts priorities and timing, and monitors risks as they change. Banks may take a cue from the manufacturing sector, where many companies use Stage-Gate® or phase-gate processes involving five stages for product development. These are a preliminary assessment, definition (market), development (product/cost), validation, and commercialization. Typically, a very low percentage of preliminary ideas pass through the final gate. Less formal processes still require that you answer questions such as: *What new product development ideas do we have? What is the scale of the identified opportunity? Do we have the skills in-house? What are the risks? Is the opportunity aligned with our strategic priorities? What are the likely financial rewards?*

In banking, measuring performance milestones is critical. Given a number of preliminary initiatives, how many milestones are passed before rejection or commercialization? Logging and evaluating the reasons for success or failure through these milestones will help you improve your innovation process. Regular planning and gap analysis reviews anchor the innovation process with business priorities. Without this focus and monitoring, the process may be sidelined by day-to-day concerns. It is critically important to ensure the success of all phases, from design to implementation and full commercialization. Information that focuses and fine tunes each stage and provides incentives is imperative to ensuring successful innovations.

GOALS	METRICS	DIMENSIONS
Product & Service Development Cost ($) Product & Service Development Lead Time (#) Project Completion by Milestone (#/%)	Initiatives Rejected (#) New Initiatives (#) New Product & Service Launch Failures (#) New Products & Services Developed (#) Modified Products & Services (#) Proj. Duration – Business Days (#) Proj. Duration – Variance (%) Rejection Causes (#) Market Tests (#)	Fiscal Month Year Quarter Month Forecast Scenario (Plan/Actual/Forecast) Scenario Product Development Milestone Product Line Product Line Project Project/Program Type Project Project Start Date Year Quarter Month Project Start Date Project Management Project Team Project Manager Project Member Project Completion Date Year Quarter Month Project Finish Date

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Product Management	Executives	•		
	Managers	•		
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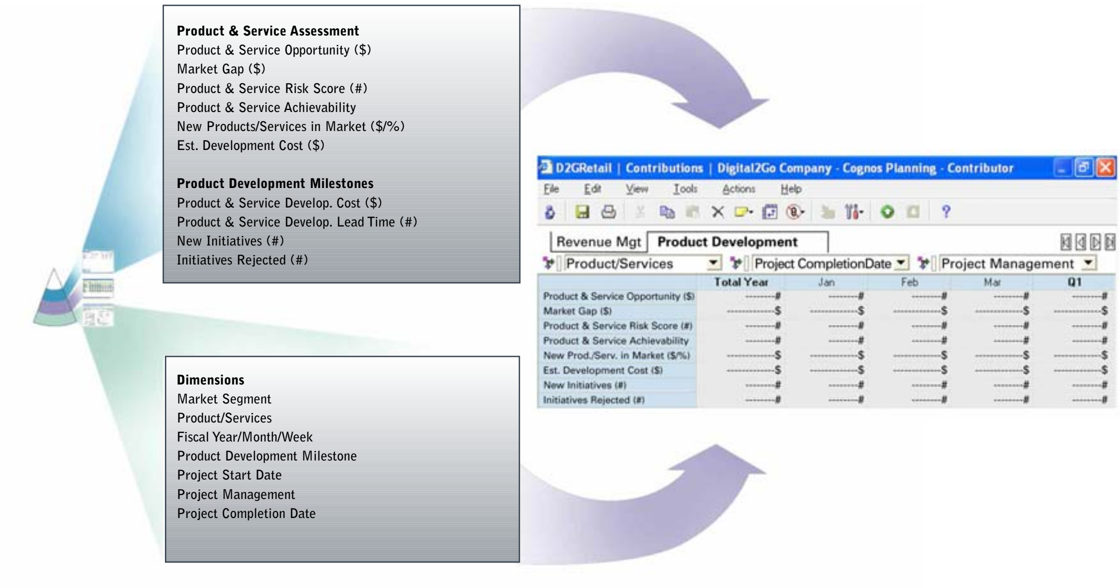
Finance	Analysts		•	
Sales	Executives			•
	Analysts		•	
Marketing	Executives			•
	Analysts		•	
Customer Service	Executives			•
	Analysts		•	
Operations / Production	Executives			•
	Analysts		•	
IT / Systems	Executives			•
	Analysts		•	
General Management	Executives			•



The Product and Strategic Innovation and Product Management Milestones decision areas illustrate how the Product Development function can monitor its performance, allocate resources, and set plans for future financial targets.