Increasing the Odds of Financial Product Success

By Andrea Trachtenberg

Have you ever wondered why great financial product ideas often turn into clunkers that are as complicated as a Rubik's Cube?

Consider some of the annuities you may have sold recently. The appealing and easily grasped concept of income for life has been turned into a complex alphabet soup of GLAs, GMWBs, GMIBs and GMDB. Multiply these by LIPs or MAVs and you feel like you're back in algebra class. (Don't even ask what investors think of this gobbledygook.)

A major reason good financial product ideas go bad is that the product development process does not include sufficient input from sales and marketing - the areas of the firm closest to the customer. Sales and marketing executives, who have the experience to adapt a product to market needs, generally are not given an opportunity to decide on essential product features. Instead,, product developers, who are too often isolated from the market, may fall in love with intriguing bells and whistles and ignore the core needs of the end user. The result: products that are not consumer-friendly.

Let's look at some real-life examples.

One major brokerage firm came up with a variable annuity product so complicated that it could not be explained clearly enough to the sales force for them to present it to clients.

In another case, investment managers at a niche asset management firm developed a bond mutual fund without consulting sales or marketing. After an expensive launch, the fund failed to gain traction. Why? Its fees were too high, it lacked an international component the market wanted, and it was uncompetitive with a portfolio of bonds that the advisor could put together on a separately managed basis - all flaws that marketers could have pointed out had they been included in product development.

Unfortunately the marketing function, particularly product and channel marketing, all too often plays a secondary role at financial firms. Typically, it is viewed largely as a communications or sales support function. Rarely are marketers invited to sit at the executive table, help formulate corporate strategy, or take profit-and-loss responsibility for a product.

This isn't the case in other industries. In consumer products, for example, chief marketing officers are expected to produce measurable results and to justify the return on their marketing investments.

And marketers do add to the bottom line. By being close to the customer, they come up with innovations that consumers really want. The recently-introduced 100-calorie cookie or snack pack is a good example. This is a product innovation with no change to the underlying product; it is simply an astute observation on the part of marketers that consumers are trying to limit their calories. The profit margins on small-size packages are some 20% higher than on larger packages - and they've been flying off the shelves.

This kind of market-oriented thinking takes place all too infrequently at asset managers, insurers and other financial product creators. A recent study conducted by my firm that analyzed new product development at asset management firms found that key functions associated with product management most often resided in the distribution area. About 70% of the time, these functions reported to the global head of funds distribution, and ultimately to the chief investment officer. In about 20% of cases product development reported to the chief operating officer, and in just 10% of cases the person responsible was the global head of marketing.

In most cases, marketing played only a minor role in the upfront, strategic development of the product or service. Instead, marketing was brought into the process during the execution phase, primarily for the development of communications and the rollout program.

Ironically, many of the core responsibilities of the product development function are marketing related. These include:

- identifying market opportunities
- market intelligence
- data and performance analytics
- competitive analysis

- pricing
- product rationalization
- positioning/differentiation
- determining value proposition and brand value

According to a McKinsey benchmarking study, the use of a formalized product development/management function is central to profitability at asset management firms.

Not surprisingly, more and more asset managers are instituting consistent and disciplined processes and procedures, and their leaders are demanding accountability for dollars spent. And in today's tough regulatory environment, internal auditors have begun stipulating that product development processes be documented and accountable.

With such an emphasis on process, accountability and success, why not draw on the analytic expertise and customer knowledge that already exists within the organization in its marketing group?

To become the high-level resource asset management firms need - and to overcome their second-class status - marketers must assume responsibility for growth and provide their product development colleagues with informed and sophisticated marketing data, analysis, targeting and segmentation.

They are up to the challenge. And if logical, well-designed products are the result, their firms - and their firms' clients - will thank them for their efforts.