Financial Services in Flux State Street Bank embarks on a revolution in product development to maintain market share and earnings growth

Kevin E. Connolly

Kevin E. Connolly

Susan Loconto Penta

Susan Loconto Penta

by Kevin E. Connolly, State Street Corporation, Chief Product Officer and Susan Loconto Penta, Midior Consulting, Partner

This article examines how one large financial services firm-State Street Bank of Boston, MA-is optimizing its existing assets to quickly adapt to the rapidly evolving economic landscape and stake its claim on the future. A key element in the bank's strategy is to revamp the product development process. Authors Susan Penta of Midior Consulting and Kevin Connolly of State Street explain how this was done.

The 2002 economic environment was tough for financial institutions. And it looks like 2003 will be even more challenging.

State Street Bank is well aware of these challenges. Several years ago, the bank began the process of rethinking its competitive position. And one element in planning for the future was a decision to revamp its product development process.
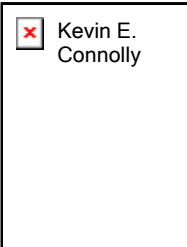
To develop a plan of attack, State Street hired our firm as an outside consultant. The aim of this article will be to explain the market conditions facing State Street and how we helped the institution develop and execute a new product development strategy.
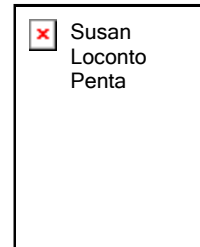
Background on State Street
But first, a look at the institution-and the market conditions facing it today.

State Street Bank is a 210-year-old financial institution, based in Boston, MA, which has very diverse set of products and services. It has roughly 20,000 employees in 23 countries servicing 100 markets, and with more than $6 trillion in assets under custody and $782 billion in assets under management.

Over the past decades State Street changed its product and service mix to concentrate on investment servicing, investment management, trading services, custody and safekeeping. The bank's clients includes global investors, including pension plan sponsors, foundations, endowments, mutual fund, collective investment companies (i.e. mutual funds) and insurers worldwide. Today, State Street sees itself as a

company specializing in investment strategy and execution, technology, information and knowledge.

Market conditions
State Street has historically built their businesses one large customer at a time. Until recently, this wasn't a problem. Client service and operations teams have grown up inside well-defined business lines where they have been extremely customer focused. Responding to customer needs was most often grounded in building custom solutions, often based on proprietary systems and platforms. Since existing customers drive approximately 80 percent of the revenue growth for most firms, it seems safe to say that things are working well. In fact, many might respond, "Why change?" One reason is that the rapid pace of technology advances has affected customers' expectations on how business is conducted. In addition, today's market features the general commoditization of technical offerings and a shifting competitive landscape. This industry is also at the mercy of erratic financial markets and is being driven by the momentum of new regulations and large-scale industry initiatives, such as decimalization, the race towards T+1, (mandated settlement in one day from trade date) and GSTP (Global Straight Through Processing). As a result, the entire financial services industry is teetering on the cusp of change. In order to compete, State Street needs to achieve greater efficiencies and better leverage from each investment in a new product.

The challenge
The goal is to maintain margin, market share and double-digit earnings growth. One downside to "business as usual" has been that the valuable knowledge and experience gained during the learning curve with one customer is not captured for the corporation as a whole. In particular, State Street wanted to increase the pace and success rate of new product introductions and to achieve greater efficiency from existing products and services. To do this clearly required a new focus on "product" equal to the rapidly expanding focus on building customer-centric business in culturally, socially and economically disparate regions. Success would require innovation around product development processes, organizational roles and 'service operational models' complemented by a program to streamline and leverage the existing portfolio of platforms, products and services. Development of new skills and competencies related to product development and management would also be required. Significant organizational obstacles stood in the way of such changes resulting from hundreds of years of "business as usual." These would need to be overcome in order to instill a new product-centric discipline that would have traction and yield tangible results.

Exhibit 1: Five-Step Plan

Five-step plan for product development at State Street Bank

- Create a product development map.
- Create an organization and develop product

We eventually developed a proactive plan that consisted of five steps, shown in Exhibit 1, starting with the development of a product map and ending with the definition of metrics that could be used to measure business impact. A key element was creation of a highly visible executive position-the Product Development Officer. State Street endorsed the plan and implementation began.

Step 1: Create a visual "product map"
The first step in the process was to create a visual

management discipline.
- Build product development business skills.
- Create and execute an internal communications plan.
- Establish and track success metrics.

"product map" that defined, organized, and related the bank's products and services to technology platforms, business units, and customer segments.

The most critical factor in initiating a change at State Street that would foster innovation and improve leverage across the 100 served markets was to get the 20,000 technologists, operations managers, client service representatives singing from the same basic score when it came to products and services. Prior to the start of this project, State Street clients potentially had exposure to more than 250 branded offerings, including those delivered over the Internet, advertised in marketing collateral, and described in customer briefings and RFPs. Vertically structured business lines had effectively created a "Mulligan's stew" of products and services whose names, in many circumstances, failed to indicate functionality or multi-market utility. The language itself was a source of confusion as everything from software application "features" to names of acquired companies fell under the broad category of "products."

The scope of this endeavor was nothing short of a cultural revolution that began with the effort to derive a common language according to product functionality. This meant, in some cases, that decades old business unit nomenclature was destined for the history books. For those with a vested interest in the product's history and development, this was no small matter.

The journey began by interviewing the newly appointed Chief Product Officer (CPO), followed by interviews with each of the State Street managers associated with the company's most successful and best understood offerings, as well as those that had been part of less successful initiatives. These interviews confirmed that the business units suffered no shortage of entrepreneurial spirit, but needed a way to coordinate technology and business disciplines across existing boundaries. Everyone recognized the opportunity for greater efficiency, but the responsibility and accountability for those efficiencies always fell between the gaps in the organization. In theory, building crossfunctional teams around common product sets would tap into best practices from all areas: information technology, operations, sales and marketing.

Of course, there was more to the plan than just rationalizing naming conventions. As it turned out, the pivotal step in making this program a success was to create a visual representation of the complete product set- or product map. The State Street Product Map shown in Exhibit 2 is a complete and easily communicated

Exhibit 2: Product Map

framework that categorizes the various products and services without losing the implied relationships between those offerings and the business units in which they are currently leveraged.
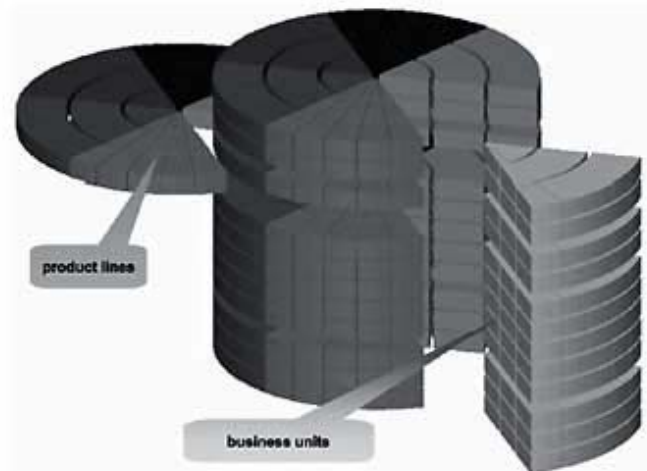
In the map, product development at State Street Product is represented by a three-dimensional cylinder which addresses the challenge of categorizing all global financial services and linking them to the core corporate capabilities and market segments. The "cylinder" we devised consists of three concentric rings sliced into nine discs representing State Street's business from a product perspective. Market segments are represented as vertical "wedges" of the cylinder. Geographies within those segments are slices within the wedges. The three concentric rings represent segmentation by customer size-small, medium and large. The horizontal discs each represent a complete product line. The discs are stacked in four major groupings, which correlate with State Street's core capabilities.

The bottom of the cylinder represents State Street's mission critical offerings - the core businesses of custody, accounting and record-keeping. Moving up the cylinder, newer and more differentiated services are depicted with custom consulting and other "knowledge" products at the top. The choice of a 3-D construct enabled a visualization that is dynamic and generates many different views of the relationships between the products, the business units, and the customer segments. The new State Street Product Map can be manipulated to offer managers the:

- Business unit view
- Product view
- Management-or portfolio-view, and
- Gaps and overlaps between product offerings across market segments

Step 2: Define the roles and responsibilities
Step Two was to define the roles and responsibilities for product-level accountability, including planning and execution; identify key people to fill the roles; provide role models and best practices

The second step in this transformation was to introduce a new dimension of accountability at the product level. Previously, accountability existed only at the functional and business unit levels. Adding product accountability defines a new, more visible role at State Street: the product manager as "CEO of the product," accountable for its business performance and measured by the success or failure of the product. This new position description requires integrating - and in many cases overlaying - a new set of organizational responsibilities onto the existing global

structure without the addition of new bureaucracy or significant additions to head count.

Under the guidance of the Chief Product Officer, a small core team of senior managers, called Global Product Executives, is now accountable for each product line - or disc's - bottom line - across all the business units. This group has the added responsibility for rationalizing the existing product set across the business units, and building the integrated product line strategy-down to the detail level of product specifications and packaging and tasked with contributing to the company's annual budgeting process. Product managers and localized product specialists - many of whom already existed - remain physically located within business units in various locations around the world and maintain their existing reporting relationships with managers. The difference for this group is that they are now fully accountable for their individual products and, as a result, are instrumental in the planning process. Global Product Executives work with Business Line managers to set objectives and provide appropriate tools, supporting templates and ensure consistent best practices in product management.

Step 3: Supplement the skills
Step three was to supplement the skills of product managers as they take on their new role, most importantly in developing accountability for business performance.

The key to success for this new group of "empowered" product executives was to prepare them to be successful. This required leading by example, highlighting the success of each product to the rest of the organization and most importantly, providing the appropriate tools, supports and training. The best practices that would improve the success of new product introductions and result in increased leverage for State Street involved establishing a clear product management discipline that focused on the business of the product. This approach was dependent on three interrelated elements - each of which built a degree of cultural change:

1. Elevate the role of product manager Prior to this initiative, there was little regard or respect for the title of product manager. There was no specific career track associated with Product Management, no obvious "mentors" for aspiring product managers, and no visible examples of success. The role of product manager is now becoming more formalized as an "important" position and is being positioned within the business lines as a job for "up and comers." Making examples of highly regarded executives whose claim to fame was association with a highly successful product further reinforces this concept. The career track for effective managers is toward business unit management.
2. Build a community of practice Since product managers live within various business units, they have little opportunity to interact with each other. While the newly created Product Management Office has very few direct reports, it is intended to become a hub of resources and events that tie together product managers from across the organization. This unit is charged with codifying and sharing best practices and turning that into curriculum to be made available to all. Specific processes for evaluating products and managing cross-functional teams have already been developed.
3. Establish visibility and credibility Just talking about products and presenting the product cylinder has raised awareness about the strategic value of a product focus. But getting the attention of the organization, and getting line managers

to participate depends on getting their respect and convincing them that effective product management will be good for them. One dimension of this challenge is addressed through the participation of senior executives in the creation and launch of the Product Management initiative. Another is addressed through a grass roots communications program that builds credibility, one success at a time. Finally, the Chief Product Officer and Global Product Executives must actively promote and make visible the track record and opportunities for benefit with their peers in the executive ranks.

## Step 4: Educate the business units
Step four is to educate the business units about the importance of innovation, product leverage, the product map and the new role of product managers in order to overcome organization obstacles

Historically, State Street had taken a U.S.-centric view of its products and product managers. With the new global growth strategy focusing on non-US markets, traction for implementing the new product view will mean taking this show on the road. Challenging cultural and credibility gaps need to be bridged, regardless of geographic location. Some of the toughest work involves changing ingrained cultural perceptions that affect attitude and behavior -the largest obstacle to success. And those cultural barriers exist not only across geographic distances, but also between functional disciplines. With this in mind, a communications program was put into place to change internal perception about products and product management that included three elements:

- Establish key messages
- Create ambassadors
- Design a formal plan but execute informal implementation

Because taking on a deep-rooted corporate culture needs a "battle plan," the internal communications effort was designed to address a tiered corporate audience. As shown in Exhibit 3, this pyramid structure identifies the key constituencies inside State Street with the various representatives who would interface with them and the communication tools they will use.

Exhibit 3: Communications Plan
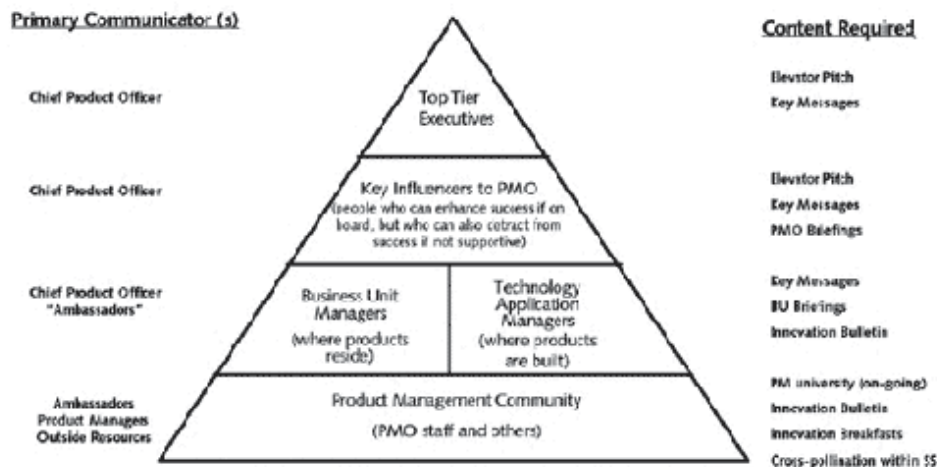
Once again, a picture was used to communicate the plan. The top tier represents key executives, followed by the senior business people or technologists worldwide, who could enhance the success of the endeavor or become obstacles to it. Under them are the business unit managers with whom the products reside and the technology application managers who build the products. At the base is the product management group itself, comprised of the Chief Product Officer, product managers, ambassadors, and outside resources.

The Chief Product Officer in conjunction with the local consultant worked with internal and external resources to develop the various communications tools-presentations, speaking points, visuals, etc. The core group took the charge to deliver the messages across the organization. A key objective was to ensure consistency in the messages about the program- so that the top of the company had the same understanding as the product specialists.

The effectiveness of this communications plan can be largely attributed to its informal implementation and its use of ambassadors. "Ambassadors" inside and outside of the product organization were recruited to help implement the plan and eliminate organization obstacles. Ambassadors are specific individuals with deep knowledge of and an interest in the product management program. For example, a common misperception was that product focus would detract from or eliminate client focus. Business leaders took convincing that the product management team would not be dictating product sales and presentations, but would be an additive to ensure that the business unit's product portfolios could directly meet all potential client needs.

Step 5: Define quantitative metrics
Step five is to define quantitative metrics that can be used to demonstrate business impact and quantifiable results

In the end, any program for change is only as effective as one's ability to measure its impact. To that end, and as part of the effort to create consistent product management tools, it was necessary to develop new management metrics for looking at products and projects. In financial services, as in many other industries, here is a "hunger for numbers" that can be used for decision support and to track progress.

Specifically, as part of this program, new management metrics were introduced, including:

- Product line profit and losses (P&Ls)
- Product success and "time-to" metrics
- Product J Curves

Product line P&L's are simple in concept, but complex in execution. In an environment where pricing and revenue is built around client relationships-the direct correlation to "product" revenue is not always obvious. In the same way product "costs" have never been tracked as such. So this represents an entirely new look at financial data.

Product success and "time-to" metrics are new ways of quantifying the effectiveness of new product introductions and other development projects. In the complex State Street environment, the definition of product success metrics is dependent on a

product manager's ability to quantify project "outcomes." These may take the form of revenue or costs savings, or sometimes may be expressed as number of new accounts or a measurement of actual customer usage. The key to success is the discipline of isolating the potential benefits, defining relevant measures, and connecting those measures to project milestones. We used product Jcurves as shown in Exhibit 4 for tracking and comparison.

Exhibit 4: Product J curve
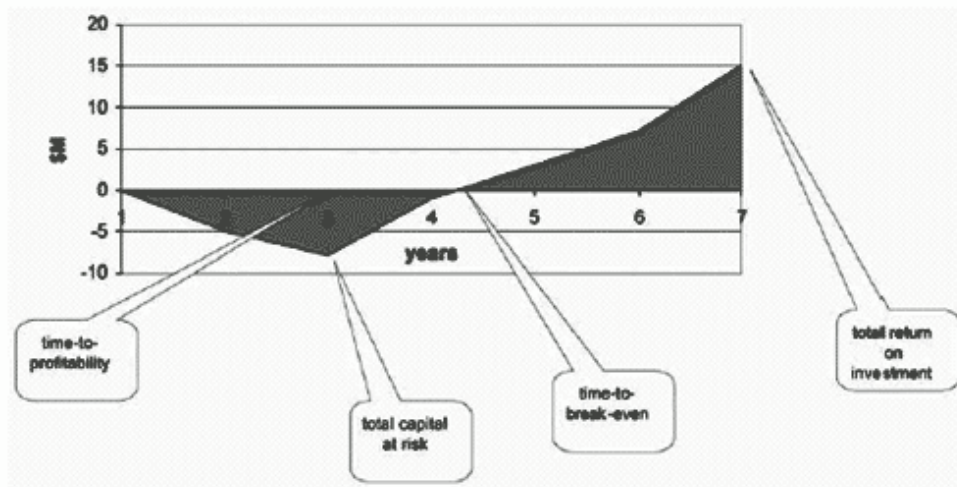
This initiative is at the end of its second year and remains a work in progress. Therefore, the final return on investment cannot be calculated. But we can make some observations.

When working with individual business leaders, the visual product map has enabled meaningful discussion about problems, opportunities, priorities and resource allocation. Strategically, business leaders gain new insight because they can begin to see their area within a broader context. In addition, even in turbulent financial markets with base revenue declining, State Street has continued to report increased earnings.

The organization has embraced "products" as evidenced by its new inclusion in the planning process. This is a long, slow process of change that is building momentum-like a tall ship "coming about." The focus is on opportunities to identify and fill gaps as well as reduce overlaps-and they know that the way to do it is through effective product management. The State Street product map supports managers in the product planning process as they consider next-generation products and services based on the gaps that are now visible. The product map also exposes overlaps in product line offerings and enables managers to devise immediate, actionable plans for rationalization based on overlaps.

In addition, the population of knowledgeable, effective product managers is growing. Those that have previously succeeded by avoiding exposure are coming out of the woodwork!

Perhaps the impact can be captured in the recent words of a key executive: "We now

have 20,000 people singing from the same sheet of music, and through a focused effort we have accelerated the organization's understanding of products and the potential for leverage by 24 months."

Kevin E. Connolly is Chief Product Officer for State Street Corporation in Boston, MA and Susan Loconto Penta is Co-Founder and Partner of Boston-based Midior Consulting.