



2010 Benchmark Study of Product Development and Management Practices

M I D I O R
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1. INTRODUCTION

The discipline of product development and management has become increasingly important as organizations strive to build a successful pipeline of new products and services to help them beat a path out of the recession. MIDIOR Consulting's second annual Benchmark Study of Product Development and Management takes a snapshot of how organizations are practicing the discipline, tracks year-to-year changes in specific areas, and identifies key leverage points for improvement.

This year's research again focused on the financial services industry, but in addition we asked a group of technology companies to participate. This provided an interesting set of data for comparisons across those industries. In analyzing the data, we looked at the characteristics of our participating companies and created a model that grouped companies according to their overall objectives and how they ranked priorities. Three categories of companies emerged and we named them according to their primary focus with respect to products and product development: "Create and Build New Products", "Maintain and Extend Existing Products" and "Retire and Rationalize Products."

Areas where we measured results year over year in financial services were:

- Sources of funding for new product initiatives.
- Priorities for product development organizations.
- Management metrics used to track success.

We were also curious about how financial services companies compared to their technology counterparts. Specifically we asked:

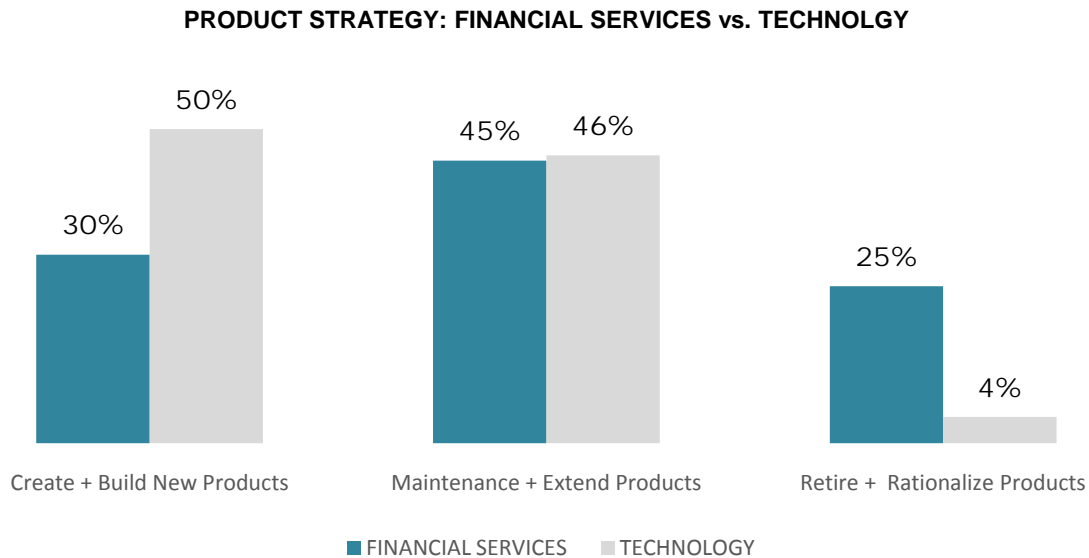
- To what extent do companies build, buy, and partner to develop new products?
- How is social media being used to gather, exchange and share information?
- What are the relative priorities of new vs. existing products?



2. HIGHLIGHTS

This year's study adds technology companies to the participant profiles to investigate how this industry is similar or different from the financial services sector. Although a few interesting differences emerged, overall the two sectors appear to be much more alike than they are different in how the discipline of product management is practiced.

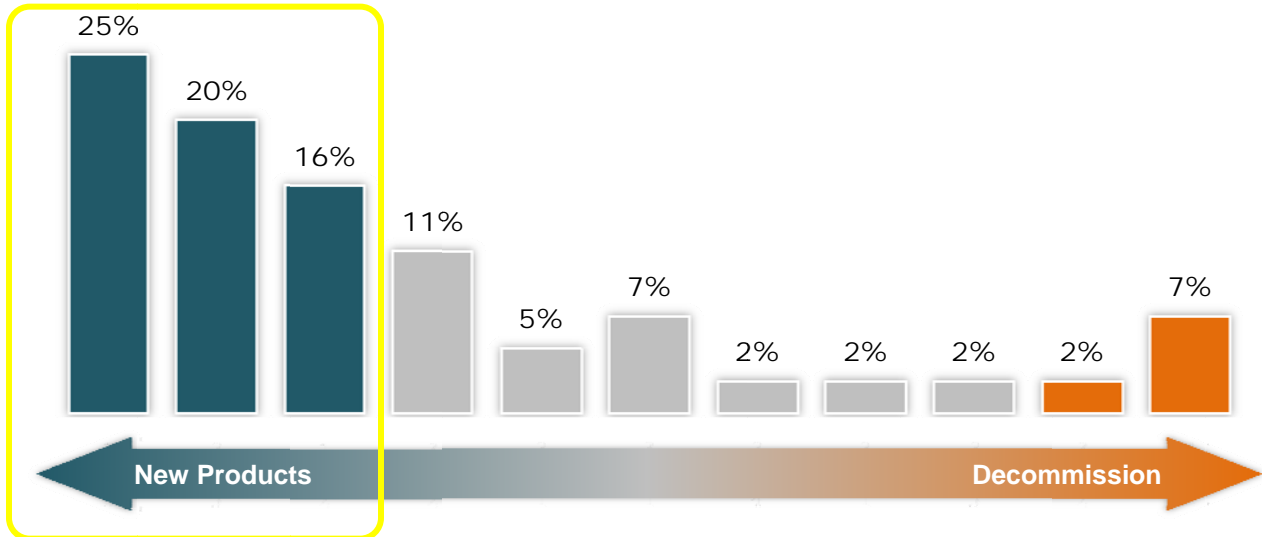
Here are key highlights from MIDIOR's 2010 research:



Highlight #1:

We found that companies were easily grouped according to their strategic priorities. As evidenced by the above chart, more technology companies were focused on creating new products while the financial services companies were focused on extending or maintaining existing products. The emphasis on new products for technology companies may be due to the fact that product cycle times are often shorter and obsolescence is a concern from the moment a product is released. We suspect that financial services companies put more emphasis into incremental product development because there is more of a concern about operational risk and less cultural appetite for innovation.

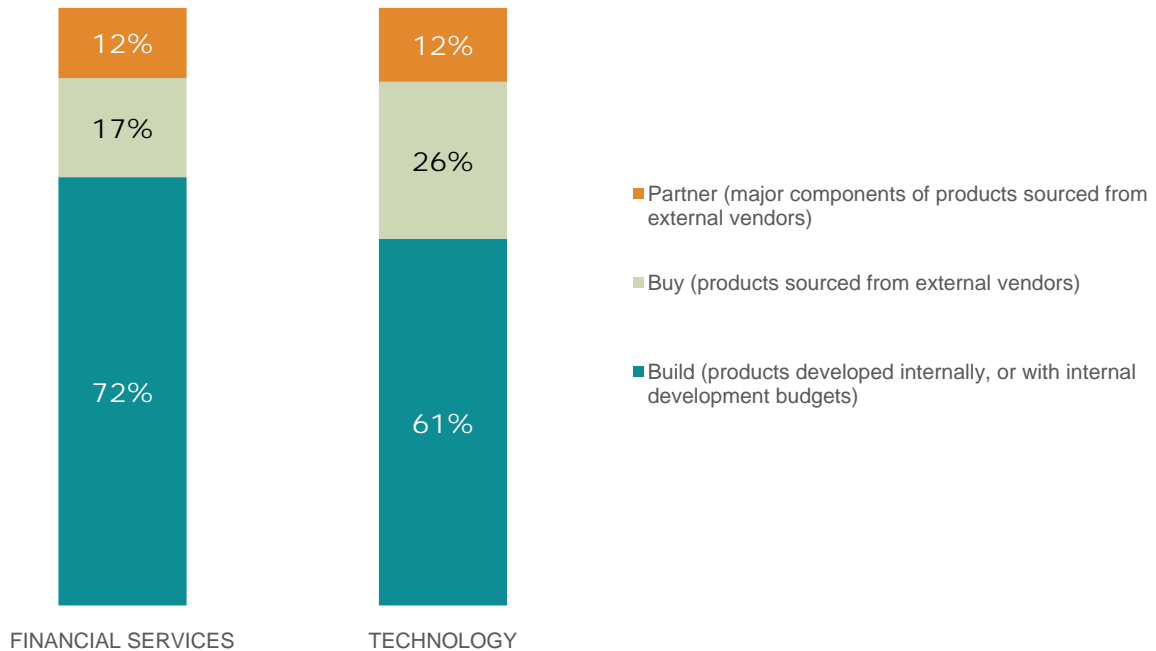
RANKING PRODUCT DEVELOPMENT PRIORITIES



Highlight #2:

When asked to rank their #1 priority, 61% of respondents said that “building new products” was their highest priority, while 29% had “extending features and functions of existing products” as their highest priority. Only 9% of respondents felt that “decommissioning products” was their most important area of focus. Overall, we would have expected an individual’s priorities to align with a company’s corporate objectives, but the data suggests that individuals are more inclined to focus on innovation and “new” products even though company strategy may be focused on maintaining and harvesting from the existing portfolio. Comparing the financial services responses with this question to the 2009 study results, the data is very consistent.

APPROACHES TO DEVELOPING THE PRODUCT PORTFOLIO



Highlight #3:

Despite what we read in the press about partnering and acquiring best-in-class technologies from external sources to fuel innovation and add to the product pipeline, our study results reveal that both financial services and technology companies predominantly develop their products in-house. Partnering may be an attractive concept, but few firms have really adopted this approach. Our belief is that there are numerous cultural obstacles that need to be overcome before partnering becomes more accepted. In addition, examples of successful partnering coupled with strong models to emulate may be required for the ratios to shift.

3. PARTICIPANT PROFILE

The executives who participated in this study had responsibility for product development, product management or both and held a corporate-wide view to product strategy in their organizations.

- 45% of the companies were from the financial services sector, primarily in banking and capital markets
- 55% were from the technology sector, primarily information technology.
- The forty-four executives who took part in the study were physically located in North America, although many of these participants had global responsibility for products.

With respect to size, the breakdown of the companies participating in the study was:

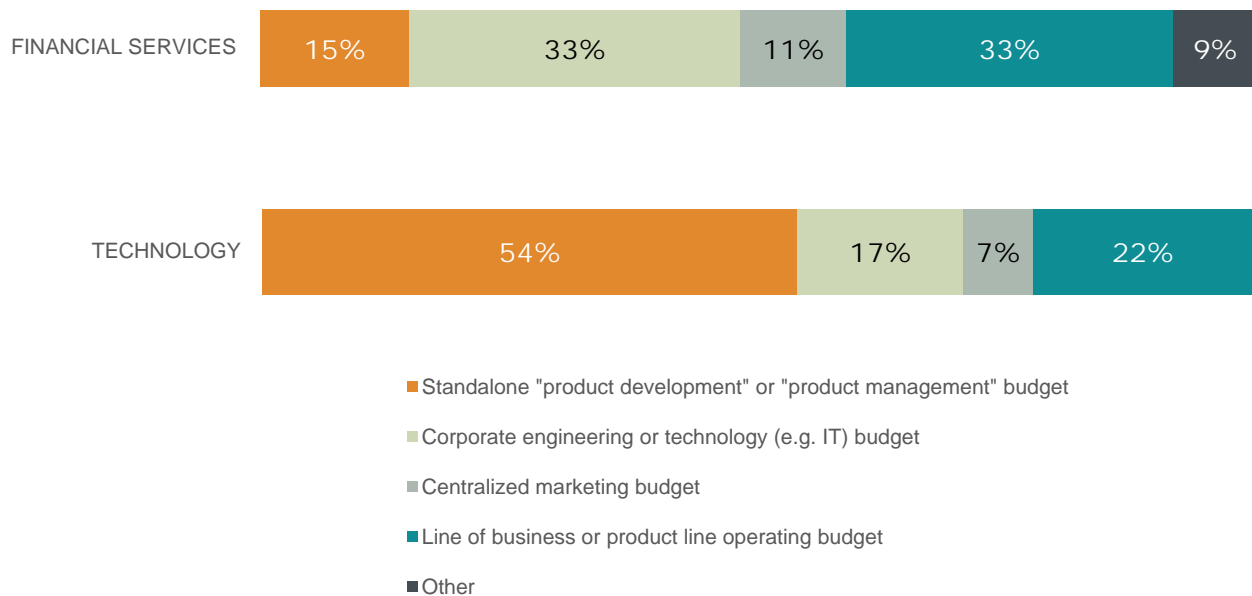
- 23% had revenues < \$250M
- 20% had revenues between \$250M - \$1B
- 57% had revenues > \$1B



4. SOURCES OF FUNDING FOR NEW PRODUCT INITIATIVES

We asked participants where the budget for new product initiatives comes from to get a better understanding of how their companies are organized and funded with respect to product development. Within the technology sector, a dedicated product development budget was more common than in financial services firms. It is surprising that even in financial services companies that had a product development organization, it was not the most likely source of product development funding. And, while “product development” and “R&D” are recognized as budgetary interests in the technology industry, there are few equivalents in financial services. Resources for new product initiatives appear to come from various sources, and are often buried within operating expense budgets.

Note: For financial services companies, these results are consistent with our 2009 study where IT was rarely the source of funding for new product initiatives.



5. JOB DESCRIPTION AND RESOURCE ALLOCATION

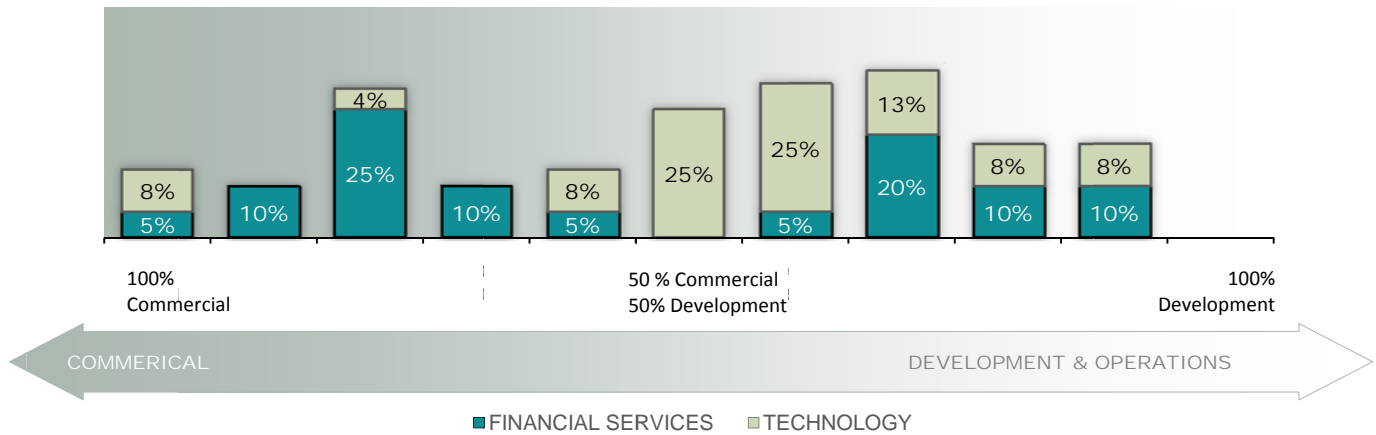
We asked the study participants to tell us what activities they considered to be part of the product manager’s job description and then to rank the importance of these tasks. MIDIOR uses a model that distinguishes between the two sides of product management, the internal “development and operations” side and the external “commercial” side. We asked participants to first consider activities that relate to commercialization of the product and then to tell us about the activities that support the development of the product. Next, we asked them to give us their opinion about the optimal balance between these two types of activities, essentially comparing where they are today to what they felt the ideal resource allocation should be.

Note: In our 2009 study we found that within financial services there was a fairly even balance between commercialization and development activities.

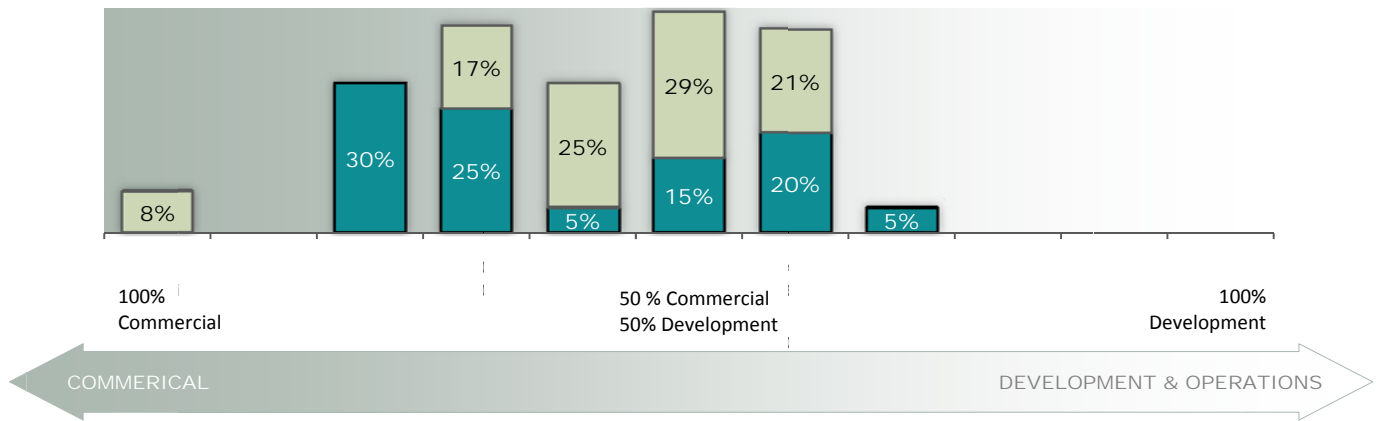
COMMERCIAL ACTIVITIES	DEVELOPMENT & OPERATIONS ACTIVITIES
Business planning and financial management	Program management for development projects related to the product
Market research and analysis	Requirements analysis, definition and documentation
Product marketing activities	Prioritization of feature requests and release planning
Pricing, bundling, service level agreements	Training and documentation (e.g. tech support training)
Field support (sales enablement, business adoption)	Operational issues (e.g. definition of standard operating processes)
Quality and/or customer satisfaction programs	Regulatory and compliance issues

In general, the participating companies indicated that they currently allocate more resources to development related activities but believe that there should be more of a balance between the two sides. It is interesting to note however, that this opinion about even balance may not translate to “best practice.” A small number of firms who are dominant players in their markets are committed to 100% focus on “commercial” activities for product management.

REPORTED MIX BETWEEN COMMERCIAL AND DEVELOPMENT



"IDEAL" MIX BETWEEN COMMERCIAL AND DEVELOPMENT



TWO FACES OF PRODUCT DEVELOPMENT AND MANAGEMENT

- ← **COMMERCIAL:** Managing the "business" aspects of the product
- **DEVELOPMENT & OPERATIONS:** Managing the building, testing, deployment and operations of the product

Appendix 1 has a more detailed view of resources and tasks but four areas are of particular note when comparing Financial Services versus Technology firms as follows:

REQUIREMENTS ANALYSIS:

Both sectors have similar definitions about what is/isn't part of a product manager's job. However, requirements analysis was given a very high priority in 83% of technology companies, as compared with only 25% of financial services firms. Conversely, operational issues had a higher priority in financial services companies than technology firms.

MARKET RESEARCH:

It's interesting to note that market research was identified as a key part of the job and assigned a high priority, yet most of the executives felt that their organizations were not doing enough of it. Implementing actionable market research is challenging, internal resources are often lacking and we believe that companies would be well-served to contract outside experts to get objective results in a timely manner. Too often internal efforts are too late to have a meaningful impact.

QUALITY & CUSTOMER SATISFACTION:

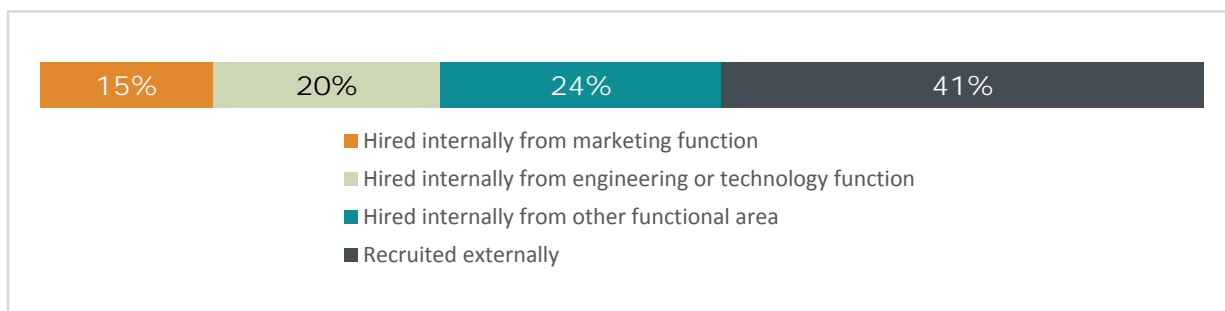
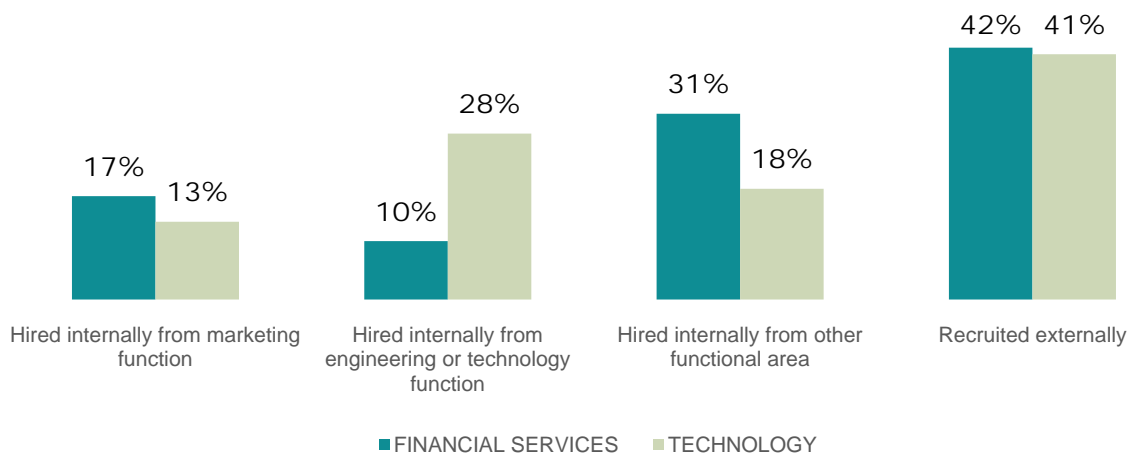
The biggest difference between the two sectors appears in ratings for quality and customer satisfaction activities. As was the case in MIDIOR's 2009 research study, financial services participants report that these activities are not a significant focus of the product management role. For technology companies, quality control was rated more highly, and in this sector, we know that it is a distinct phase that is built into the product development cycle. It may be that in financial services organizations, where there is greater focus on "project" metrics, the quality control phase is not built into the process in the same way. In the technology sector, where typically one product is delivered to many customers, the products, by definition, need to be completely finished and tested before product launch and delivery. Other than in retail banking, financial services products are frequently customized post-launch and configured with client specific data before delivery to an individual customer is considered complete.

BUSINESS PLANNING:

Business planning activities garnered the second highest ranking for "not enough time spent" by product managers, a finding that is consistent with what financial services companies reported in MIDIOR's 2009 study. We feel strongly that business planning is a core competency that product management organizations need to strengthen. If it does not exist, the discipline needs to be established as an on-going exercise, and not a "point in time event," where product leaders are regularly held accountable for their plans by top management in the company. So often, we see business planning occur as a one-off event that consumes resources but is rarely revisited and ultimately is of no value to the organization.

6. WHERE DO PRODUCT MANAGERS COME FROM?

In this year's study we were curious to know more about hiring criteria for product managers and how the two sectors might differ on this point. This year we found that financial services firms were as likely to hire talent from outside the organization as their technology counterparts, a change from 2009. If technology companies did look inside their organization for recruits, they were most likely to come from the engineering team. Financial services companies, on the other hand, tended to look for candidates from different functions in the organization.

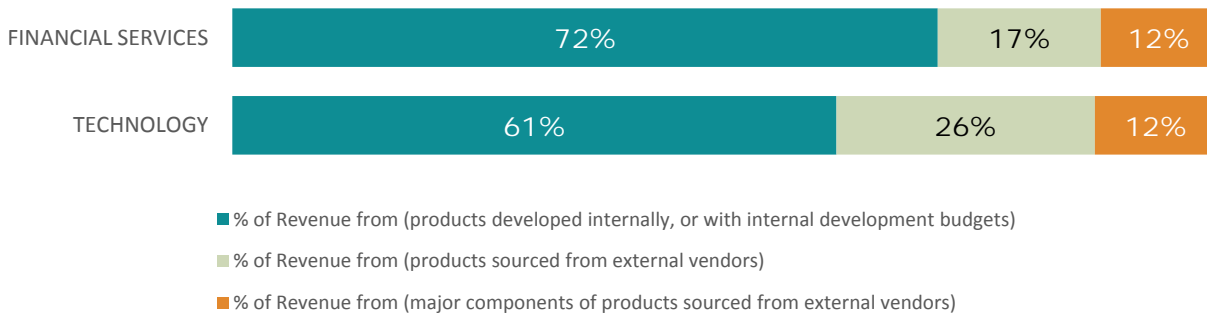


An interesting highlight about hiring criteria is that in both sectors, education and certification were not highly valued as critical to a product manager's success (see Appendix 7 for details). At MIDIOR, we couldn't agree more that personal attributes such as energy, enthusiasm, fit with the organization and raw intelligence trump educational degrees, prior job titles and even number of years of experience. However, this finding flies in the face of how many job applicants are coached to invest time and energy to earn certification in a product development process or methodology. Is this sound advice? Or an easy way out of tough conversations?

Note: Surprisingly, in both sectors, intelligence was not ranked as a highly important characteristic in the hiring process!

7. PARTNERING AND OUTSOURCING

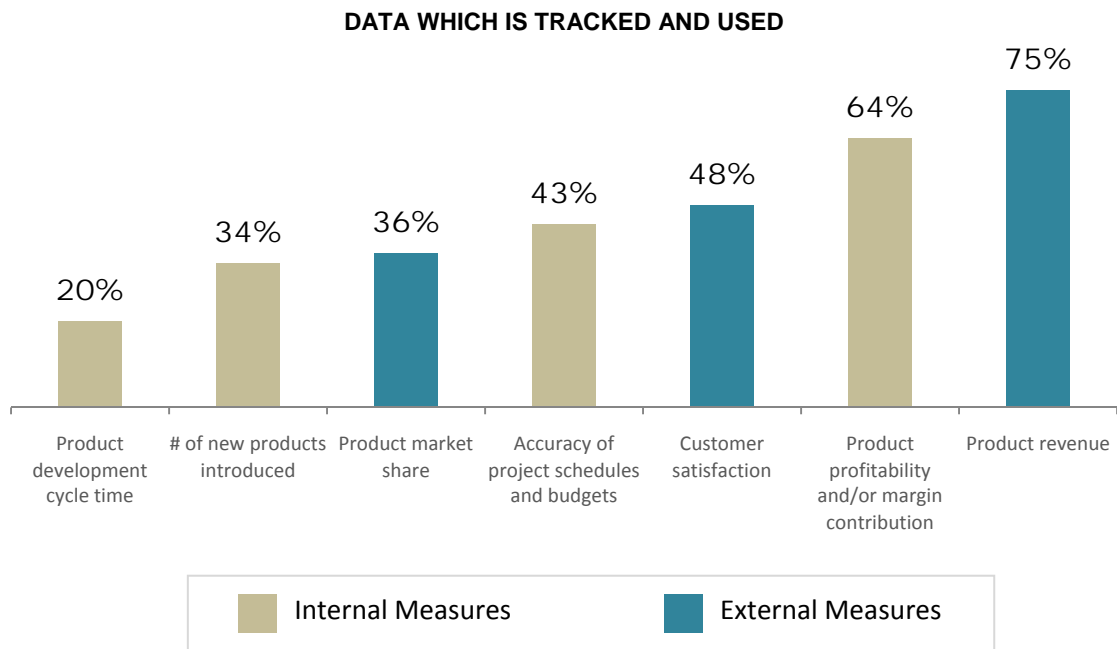
Despite all that we read in the press about open innovation, our study results show that both financial services and technology companies predominantly build their products internally rather than relying on partners or other external sources for new products. Financial services companies reported that 72% of revenue came from internally developed products, followed closely by high tech companies who reported 61% of revenue from products developed by internal teams. We suspect that in financial services, the bias toward internal development is in some part driven by a mandate to maintain strict control (security) over the data. Yet in both sectors actions speak louder than words. There seems to be a severe case of the “we can do it better” syndrome although these companies are not leveraging their technology investments by building all product components inside. Today, it would appear that partnering has not been successful perhaps because it is perceived as too risky, it lacks cultural fit with the organization or because companies have not come up with a program or process for working successfully across organizational boundaries.



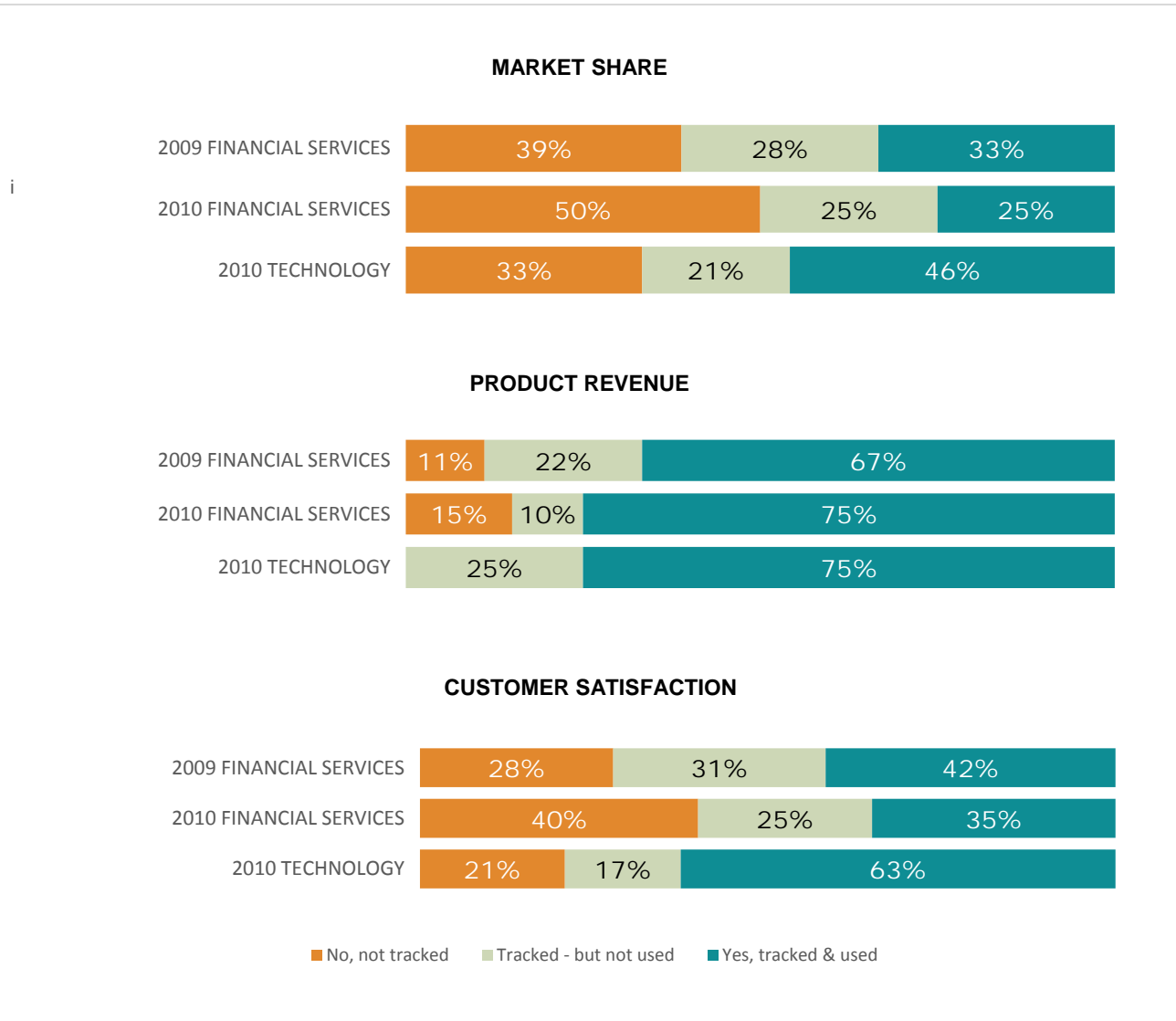
8. MANAGEMENT METRICS

Similar to last year, we asked about metrics that are tracked and used by product development and product management groups. Product line revenue came out as the most likely to be tracked and used in both the financial services and technology companies. As can be seen in the figures on the following pages, after product revenue there are numerous differences across industries. For example, market share and customer satisfaction are more likely to be used in technology firms than in financial services companies. On the whole, we can conclude that the technology industry makes more use of more metrics.

We are once again surprised and curious about the number of measures which are “tracked” but not used. What’s that about?

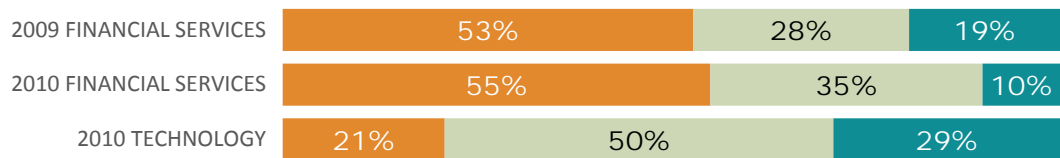


External Measures for tracking and managing the success of products

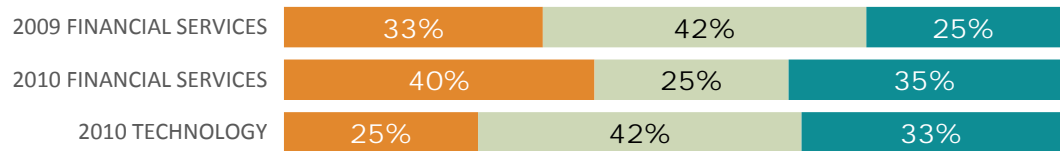


Internal Measures for tracking and managing the success of products

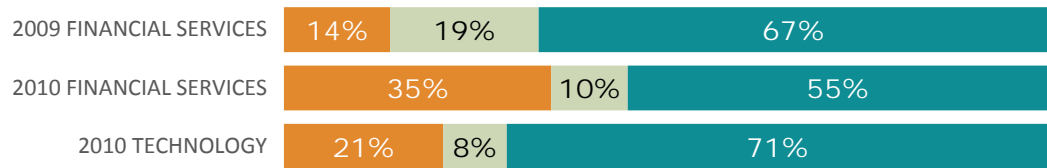
TRACKING PRODUCT DEVELOPMENT CYCLE TIMES



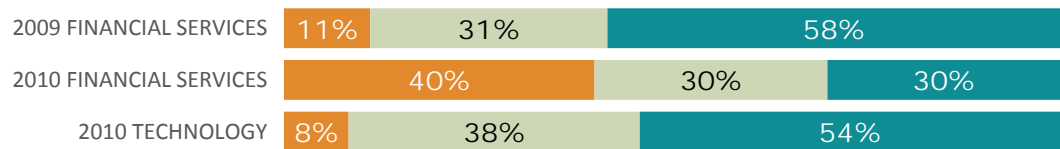
TRACKING NUMBER OF NEW PRODUCTS



TRACKING PROFITABILITY



TRACKING BUDGETS AND SCHEDULES



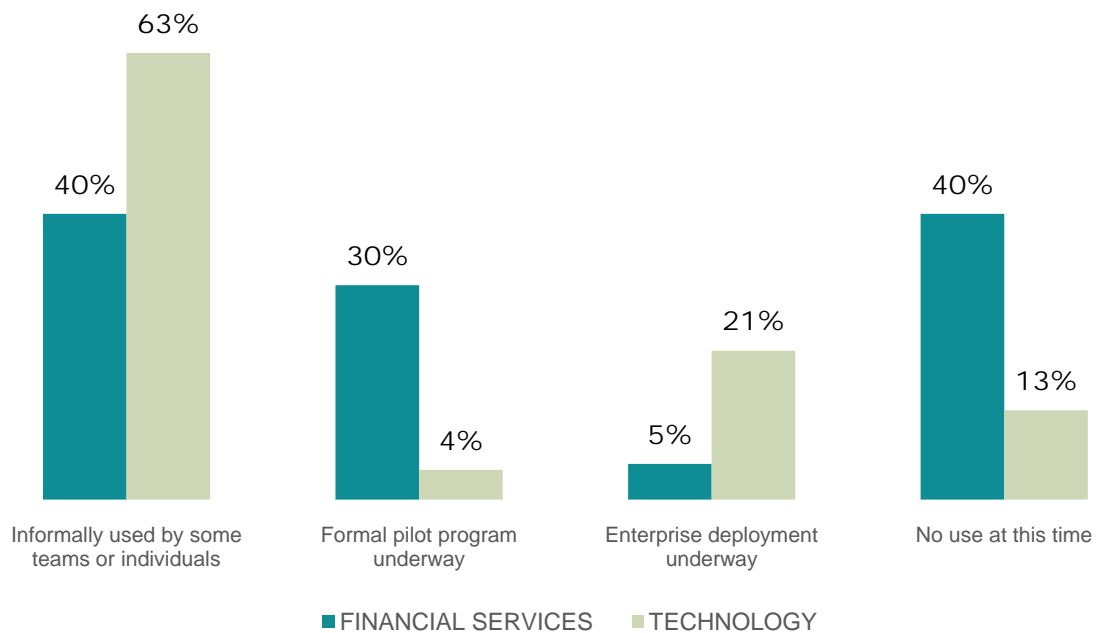
■ No, not tracked ■ Tracked - but not used ■ Yes, tracked & used

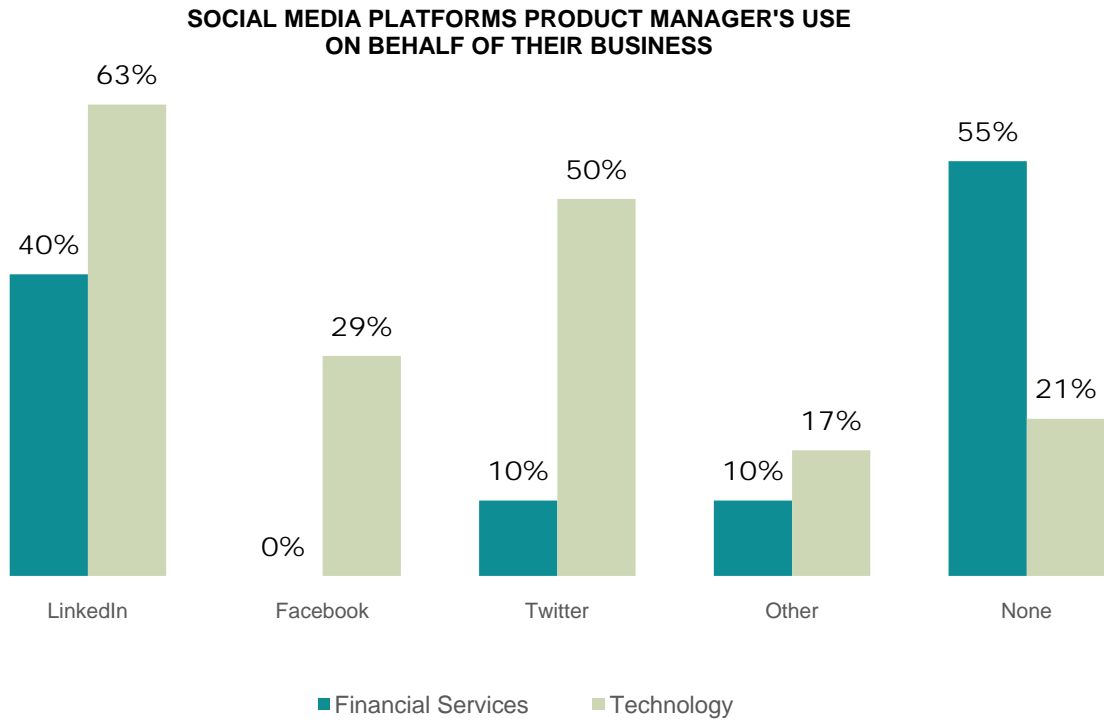
9. USE OF SOCIAL MEDIA

This year we became curious about the adoption of social media as a tool for product development and product management. What we found was that 75% of the participants indicated that they utilize one or more social media platforms to gather, exchange, and share information. While the use of social media was more prevalent among technology companies, there was more activity in formal pilot programs among the financial services firms.

This seems consistent with the stereotype that financial services firms are more centrally organized versus the entrepreneurial culture of the technology industry. LinkedIn was the most frequently used application (63% technology companies, 40% financial services), followed by Twitter (50% in technology companies, 10% financial services). It will be interesting to see whether these platforms become more integrated in, and play a greater role in product management programs in the future. Today, these are mostly experiments. The long term value is yet to be determined.

USE OF SOCIAL MEDIA BY PRODUCT MANAGEMENT TEAM TO GATHER, EXCHANGE, AND SHARE INFORMATION





10. CONCLUSION: KEY POINTS OF LEVERAGE

With the addition of technology companies to our benchmark study, we noticed that the responses from financial services companies as compared with their technology counterparts highlighted more similarities than differences between the two sectors. The challenges in actual resource allocation versus how participants viewed their priorities had most companies looking to adjust their focus towards running “the business of the product” and customer focused activities. From our 2010 research, we identified five key points of leverage that offer an opportunity to enhance the discipline of product development and management:

1. INSUFFICIENT EMPHASIS AND RESOURCES ON EXISTING PRODUCT PORTFOLIO.

Our research highlights that insufficient emphasis and resources are being applied to existing products. This also happens to be where we see the greatest opportunities for margin contribution. Everyone talks about innovation and coming out with the next hit product but we see the most likely short-term financial performance resulting from more effective management of products that are already being delivered to customers. MIDIOR recommends that companies focus on gaining efficiencies and harvesting as much as possible from existing product lines. Companies should be sure to set quantifiable goals for both revenue and margins coming from new products and existing products. That is not to say you shouldn't innovate – but the investment innovation should be proportional to the investment in incremental development.

2. LEARN HOW TO PARTNER AND COLLABORATE WITH OTHER FIRMS AS A METHOD FOR EXPANDING THE PRODUCT PIPELINE.

Few of the participants felt they had an effective partnering strategy yet there is considerable leverage to be gained from relying on externally developed technology to accelerate the development cycle and expand the product pipeline. But partnering is a process – not an event. Companies need to adjust their cultures and their development processes in order to develop a competency in partnering.

3. INVEST IN TALENT, BUILD TEAMS.

The critical bottleneck in the new product pipeline is not usually the number of good ideas but rather the number of complete teams that can be deployed. Building highly functional product teams is the foundation for developing successful new products and services. Configuring great teams makes identifying and keeping talent a key point of leverage for product organizations, yet it is not always viewed as a critical function or priority. In addition, we were quite surprised by the low ranking that “intelligence” garnered from our participants as an important hiring trait. In fact, we would argue that personal attributes of intelligence, energy, enthusiasm and organizational fit are the key predictors of success. We encourage companies to develop a stronger definition of what they are looking for in the hiring process and to consider “teams” as one of the critical units of resource planning.

4. INSUFFICIENT FOCUS ON BUSINESS PLANNING, MARKET KNOWLEDGE, AND CUSTOMER INSIGHT.

Business planning is a competency that product management organizations need to focus on and apply as an on-going process. Our study participants reported that they are not spending enough time on this activity.

Planning depends on knowledge: of your customers, your competitors, your technology, and your process. MIDIOR considers business planning to be a core competency for product managers, and the quality of the planning process is a good leading indicator of ultimate product success.

5. SOCIAL MEDIA PLAYING A ROLE.

Social media is playing a role in how product teams gather, exchange and share information with each other and across the organization. We see great potential in this development from the perspective of getting individuals across the organization excited about being a part of a product's development and contributing their personal expertise to the pool of knowledge. With social media platforms, individuals can actively publish their content, distributing their comments on wiki's for example, and then encourage dynamic interaction as others comment and contribute. This was always the promise of knowledge management advocates, but with today's platforms and the new norms of behavior, it seems that the technology may finally be an enabler and not an obstacle. We expect the use of social media to become more integrated into the product development process even as it is being deployed to increase customer understanding on a real-time basis, so pay attention and learn how to take advantage.

For more information about MIDIOR's research, call 617-864-8813 or email info@midior.com.

APPENDIX 1 PRODUCT MANAGEMENT RESOURCES

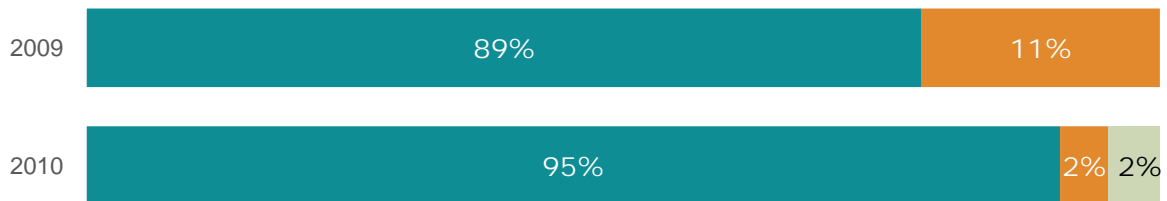
Estimate the percentage of the product management resources allocated to each of the following objectives.

		Program management for development projects related to the product	Requirements analysis, definition & documentation	Prioritization of feature requests and release planning	Training & documentation	Operational issues	Regulatory & compliance issues	Business planning & financial management	Market research & competitive analysis	Product marketing (outbound communications)	Pricing, bundling, service level agreements	Sales, client relations & other field support	Quality and/or customer satisfaction programs
Part of the job description	Yes	66%	93%	93%	70%	75%	80%	82%	89%	66%	91%	82%	55%
	No	34%	7%	7%	30%	25%	20%	18%	11%	34%	9%	18%	45%
Priority	High	41%	57%	48%	11%	23%	23%	52%	39%	30%	41%	52%	34%
	Med	25%	32%	36%	45%	45%	50%	27%	39%	48%	48%	36%	23%
	Low	18%	7%	11%	34%	20%	18%	16%	18%	7%	9%	5%	23%
Amount of time	Too Much	20%	23%	7%	11%	18%	11%	7%	2%	9%	2%	18%	7%
	Enough	36%	41%	61%	43%	48%	61%	41%	30%	43%	61%	41%	27%
	Not Enough	27%	32%	27%	32%	23%	20%	50%	64%	32%	36%	34%	48%

APPENDIX 2 THE PRODUCT MANAGEMENT FUNCTION

Do the functions named "Product Management" and "Product Development" exist within your organization?

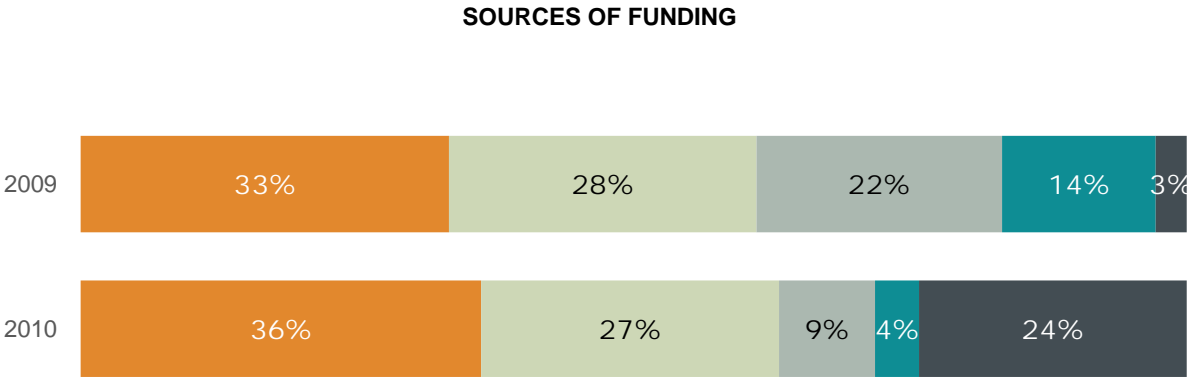
"PRODUCT MANAGEMENT" AND "PRODUCT DEVELOPMENT" WITHIN YOUR ORGANIZATION?



- Yes, one or both of these functions exist
- There are no dedicated teams with those functions, but there are individuals around the company who focus on those areas
- Although there is no group with either of those names, there is a team dedicated to those functions
- There are no such groups, and I have no knowledge of individuals who specialize in those roles

APPENDIX 3 SOURCES OF FUNDING

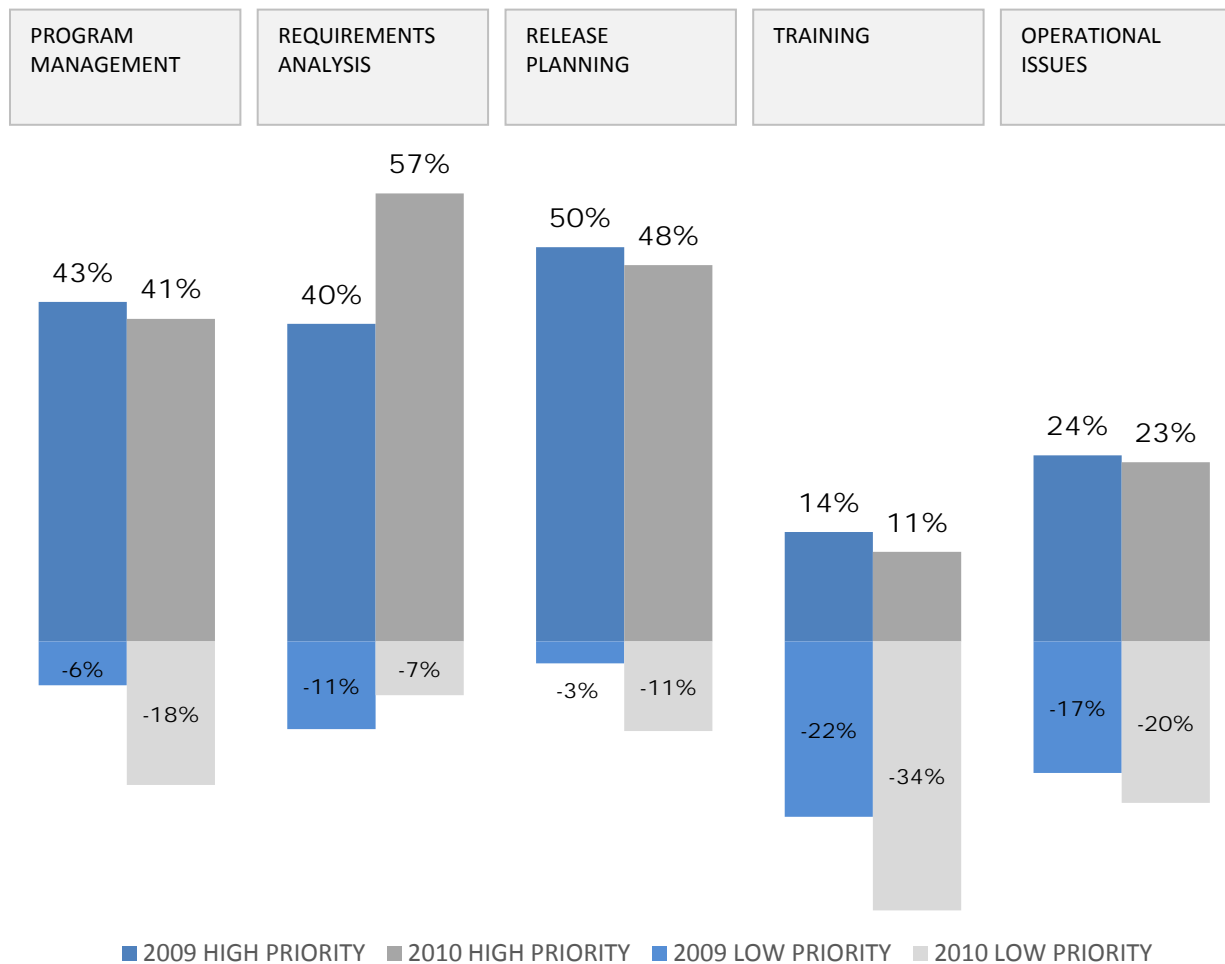
Where are the sources of funding for new product initiatives (e.g. prototyping, market research, etc)?



- Standalone "product development" or "product management" budget
- Line of Business
- Centralized Marketing Group
- Other Areas of Company
- Corporate Information Technology (IT)

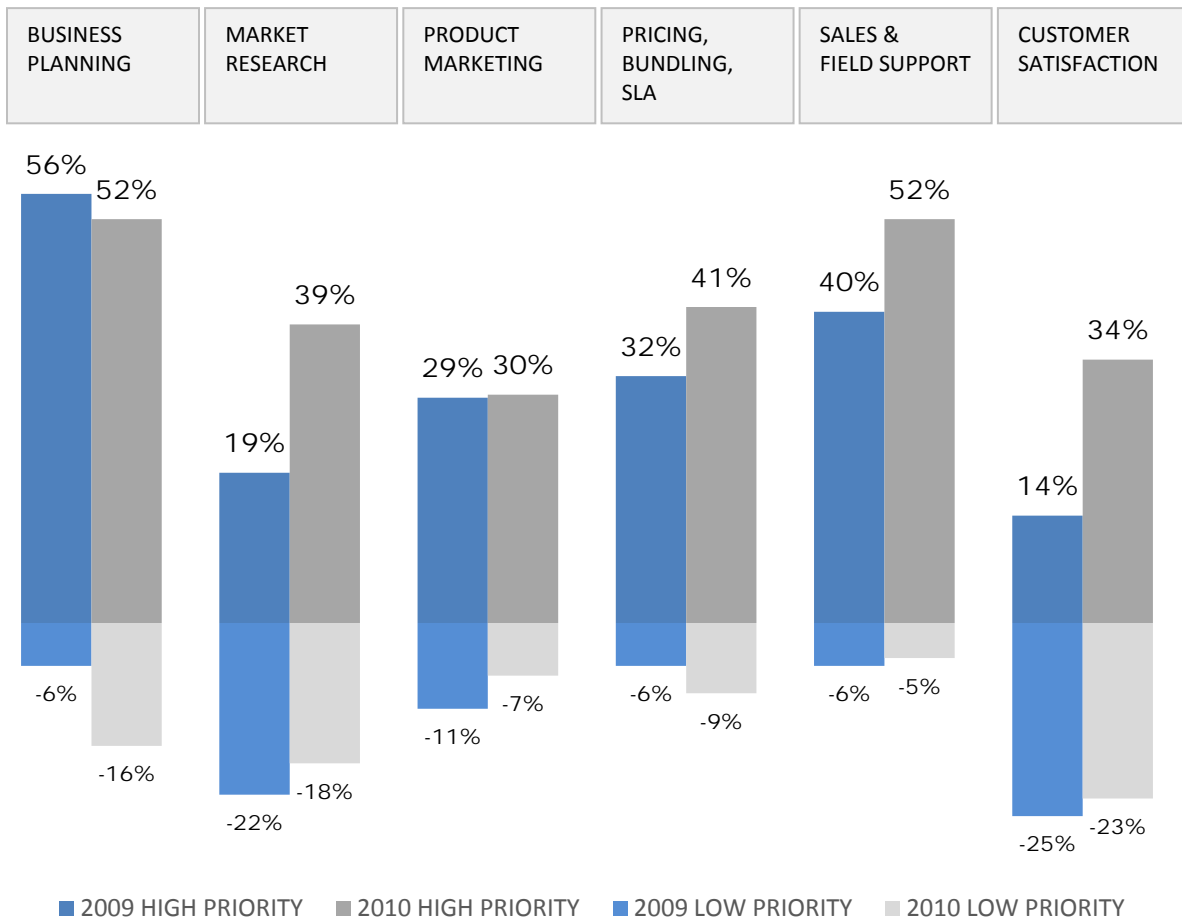
APPENDIX 4 YEARLY COMPARISON OF PRODUCT MANAGEMENT “DEVELOPMENT AND OPERATIONS” PRIORITIES

Within the "Development & Operations" focus area; please rate the following activities in terms of where product managers, in aggregate, currently spend their time and effort.



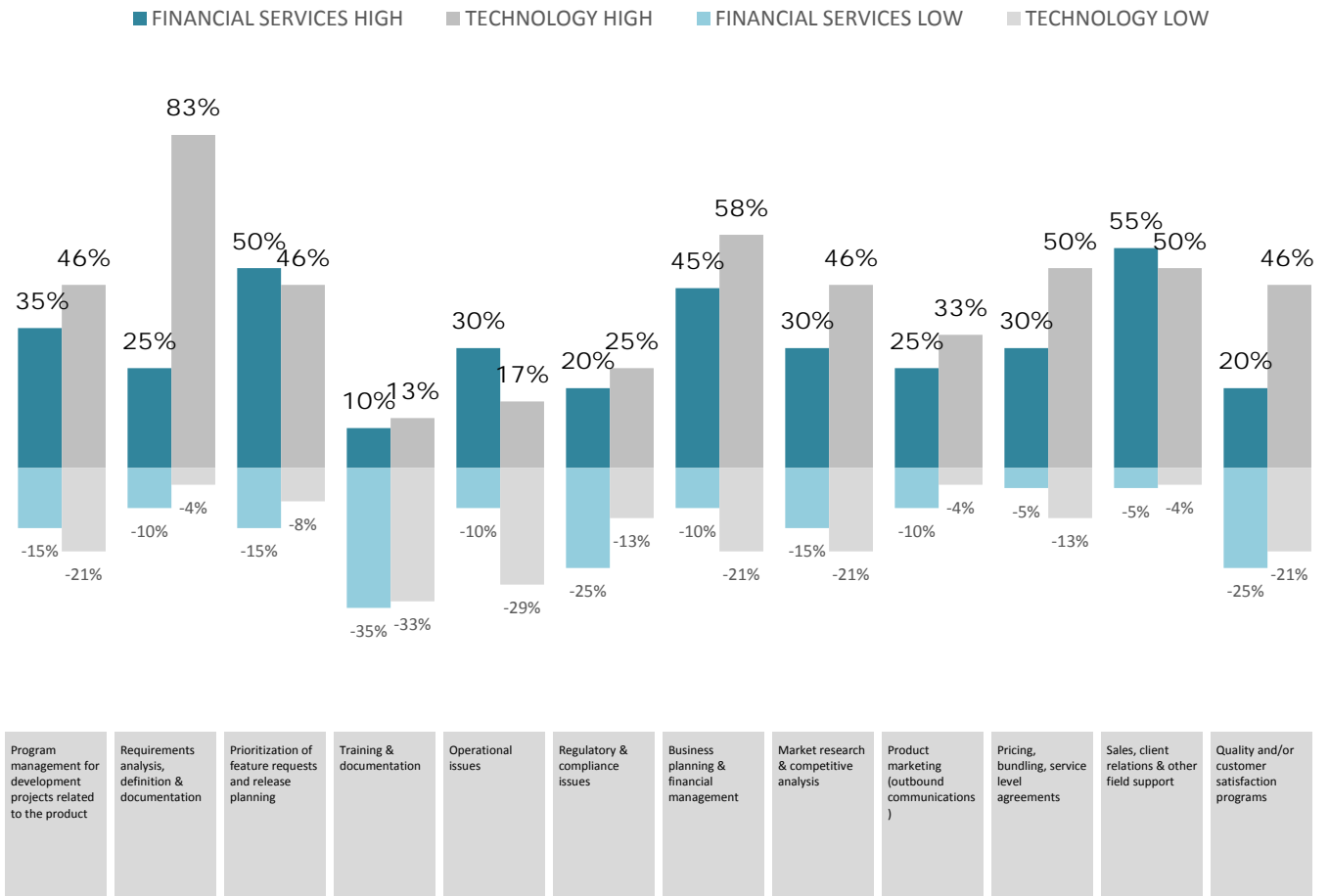
APPENDIX 5 YEARLY COMPARISON OF PRODUCT MANAGEMENT “COMMERCIAL” PRIORITIES

Within the "Commercial" focus area, please rate the following activities in terms of where product managers, in aggregate, currently spend their time and effort.



APPENDIX 6 PRODUCT MANAGEMENT PRIORITIES BY INDUSTRY SECTOR

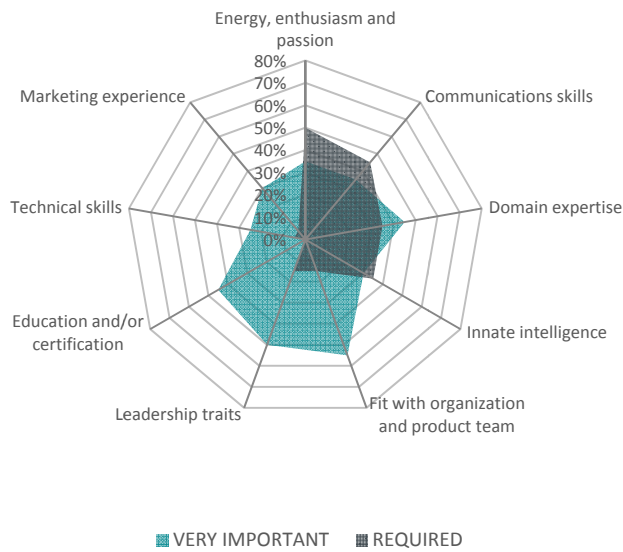
Within the "Development & Operation"s focus area, product management ranked the priority of these tasks below as high or low.



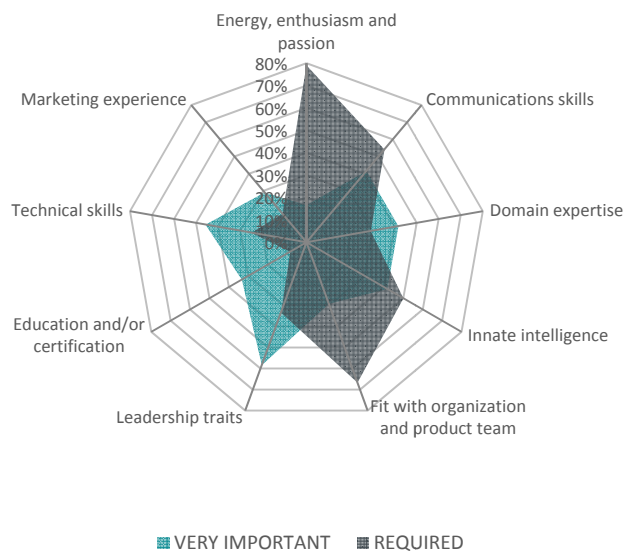
APPENDIX 7 KEY FACTORS FOR HIRING

Factors when hiring product managers

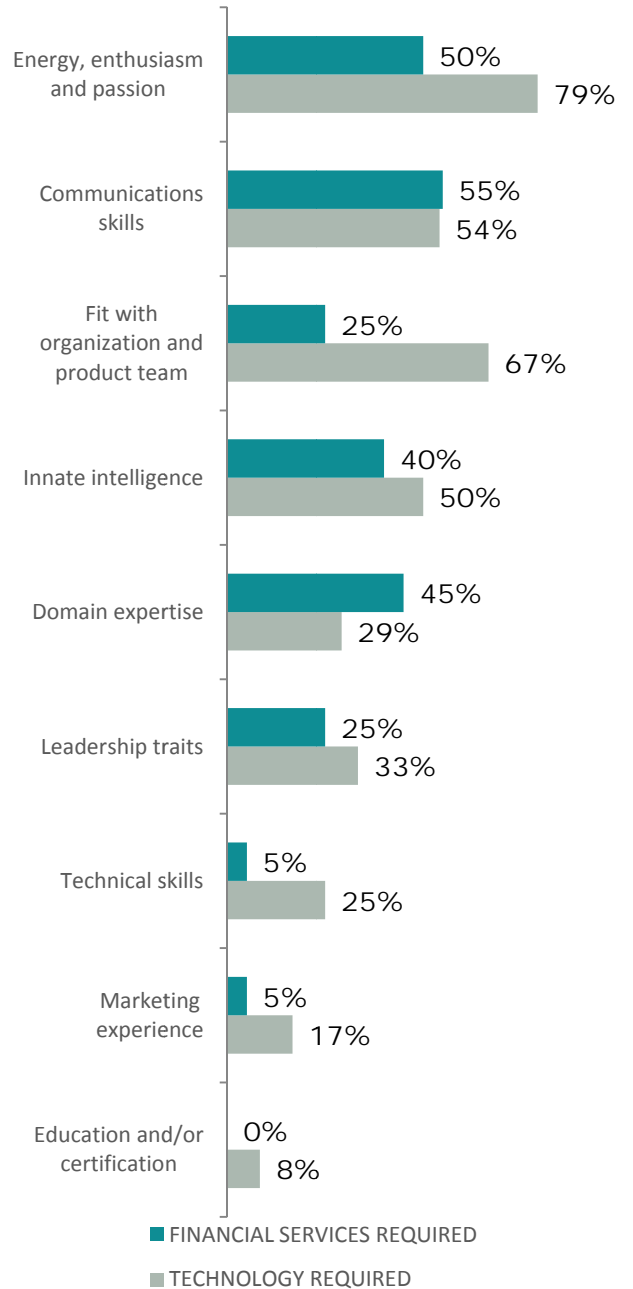
FINANCIAL SERVICES



TECHNOLOGY



REQUIREMENTS FOR HIRING



MIDIOR is a management consulting firm focused on the discipline of product development and management, helping clients seize new opportunities and respond to changing markets. MIDIOR's proven leadership in product, platform and information management inspires organizations to challenge conventional thinking and develop the skills necessary to build a sustainable pipeline of successful new products and services. MIDIOR's clients span a broad range of industries including financial services, industrial products and services, high technology (software, systems, and communications) and human services and education.

MIDIOR CONSULTING
22 Putnam Avenue
Cambridge, MA 02139

617.864.8813
www.midiior.com
blog.midiior.com
midiiorite on Twitter