

MIDIOR
CONSULTING



PRODUCT MANAGEMENT IN FINANCIAL SERVICES

2009 BENCHMARK STUDY

CONTENTS

**2009 Benchmark Study of
Product Management in Financial Services**

Introduction	1
Highlights	1
Participant Profile	2
Product Management is Becoming More Strategic	2
Respect for the Function	3
Lack of New Product Initiatives	3
Equal Time for Commercialization & Development Activities	3
Product Portfolio Management in its Early Stages	4
Performance Measures	5
A Self Review	5

⋮ **2009 Benchmark Study** ⋮

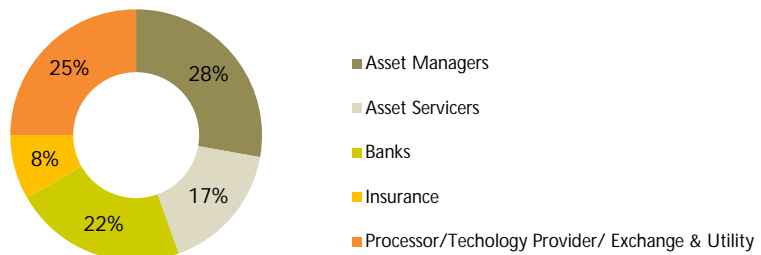
**PRODUCT MANAGEMENT
IN FINANCIAL SERVICES**

“ Financial services organizations are still establishing product management as a core competency. Skill sets are evolving as financial services firms build an understanding of how to relate their significant investments in technology to concrete business outcomes.”

Introduction

Now, more than ever, large financial services firms are challenged to make the right decisions about where to invest to deliver new capabilities. For future success, these firms need to hone their product organizations and develop the product management core competencies that will ensure a sustainable pipeline of new products and services.

This 2009 research study was initiated by MIDIOR Consulting to understand the current state of product management and to benchmark how well product organizations are performing in the financial services industry, with specific focus on the banking and capital markets sectors. Participants in this research study were senior executives who have a corporate-wide view to product strategy and who hold direct responsibility for product management in their organizations. The executives who took part in the study were physically located in North America, although many of the executives interviewed had global responsibility for products. Of the financial services firms represented, the sector breakdown included:



Highlights

Unlike the consumer goods or high technology sectors, where product management can be considered a well-practiced discipline, this study indicates that financial services organizations are still establishing product management as a core competency. Skill sets are evolving as financial services firms build an understanding of how to relate their significant investments in technology to concrete business outcomes.

With respect to the strategic nature of product management, in fully one-third (33%) of the companies surveyed, the product management function reports as a standalone group directly to a “C” level executive. If we conclude that a direct reporting relationship supports greater respect and effectiveness for the function, then there appears to be the recognition that a strategic focus on products is a critical component to growth and profitability.

Most companies report that there is respect and understanding for the product management function in at least some parts of their organizations yet less than half (<50%) feel that product management has a major impact or influence in important decisions. It would appear that across the organization, respect is growing for individuals in the role yet, at the highest levels, product management does not have an equal seat at the table with other functional areas.

One surprise was that the least likely source of funding for new product initiatives came from IT (Information Technology), trailing all other funding sources by a large margin. In

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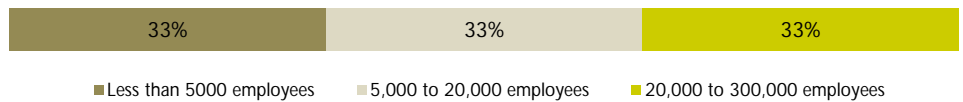
PRODUCT MANAGEMENT
IN FINANCIAL SERVICES

“ The role of product management is not understood well, and needs definition, but product managers have great ability to influence decision making.”

an industry where technology investment consistently drives new product development, these organizations identify IT as the primary funding source only 5% of the time.

Participant Profile

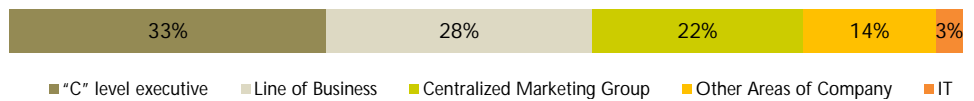
Each of the financial services organizations contacted in this study had “product management” or “product development” as named functions and the participating executives owned corporate-wide product responsibility. Company size was evenly distributed between small (< 5,000 employees), medium (5,000 to 20,000 employees) and large (20,000 – 300,000 employees). The professional careers of research participants averaged 21 years with recent positions most likely to be in product development, product management or business development.



It is interesting to note that these senior executives with global product management responsibility had, on average, less than five years of direct experience in a product management role. In fact, 45% of these executives had never served in a product management role over the course of their careers. In addition, few had professional experience outside of the industry. While the lack of product management background could indicate some deficiency in training around the core building blocks of the discipline, domain expertise in financial services was an overriding strength for all of these executives.

Product Management Is Becoming More Strategic

When we asked where product management sits in the organization, we were encouraged to find it was most likely to be a standalone group reporting to a “C” level executive (33%). This was followed by a reporting structure within a line of business (29%), within a centralized marketing group (22%) and lastly, reporting to another area of the company (13%). In only 3% of the companies reporting was the product management group located within IT.



These results may be related to the sources of funding for new product initiatives where IT was rarely the primary source of funding. In two-thirds (67%) of the companies, standalone product development and/or product management budgets were identified as frequent sources of funding followed closely by line-of-business operating budgets (50%). Corporate marketing was identified as a primary or frequent funding source by only 36% of the participants.

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PRODUCT MANAGEMENT
IN FINANCIAL SERVICES

“ We have some very bright people working in product management. Their charter and mission are somewhat unclear and not fully recognized within the company.”

Function is Respected But the Process is Not Well Understood

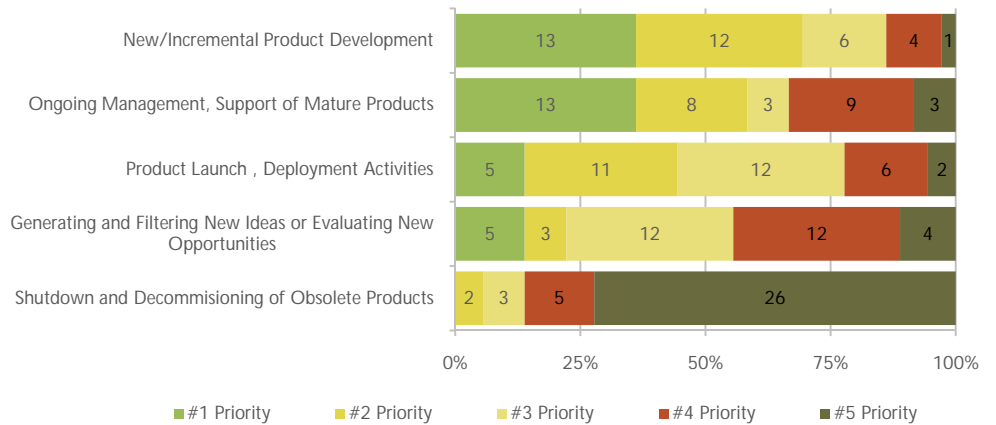
On the whole, study participants say there is respect and understanding for the product management function in their companies. Product managers are viewed as primary product champions (88%), as sources of deep source of market expertise (47%), and as key links across organizational boundaries.

With respect to the role of product management, there is an even split between individuals who believe the role is well defined or understood and those who do not. This data, coupled with qualitative data from one-on-one interviews, leads us to suspect that while individual product managers are perceived as key contributors in many instances, the discipline and process of product management may still be unclear.

Lack of Focus on New Product Initiatives

When asked to prioritize where product managers spend their time and effort across the span of the product lifecycle, product launch and deployment activities were ranked as a priority for a fraction of the companies (14%) and generating new product ideas ranked as a leading priority for the same low percentage (14%). In fact, when asked about the product management objectives for their companies, just 30% felt that the number of new products introduced was important.

Overwhelmingly, organizations identified the high focus areas to be incremental product development and ongoing management and support of mature products.



Equal Time for Commercialization and Development Activities

To further understand how product managers spend their time, two categories of activities were outlined: “commercial” activities which center on the business of the product and “development and operations” activities which pertain to the building, testing, deployment and operations of the product. For the companies represented in this study, there was a fairly even balance in time and effort devoted to these two categories of activities.

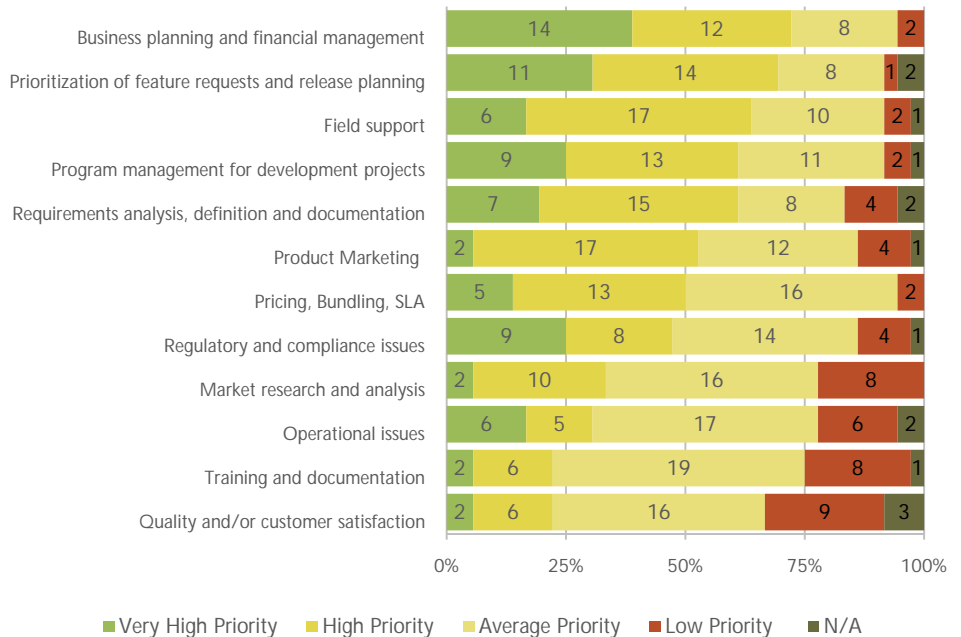
2009 Benchmark Study

PRODUCT MANAGEMENT
IN FINANCIAL SERVICES

Within commercially focused activities, the overwhelming priority for product managers was business planning and financial management for products, with 72% of respondents rating this activity as a high or very high priority. The next highest area of focus was field support (64% high or very high priority). Customer satisfaction was the lowest priority for time and effort spent (22%) and market research and analysis was only a slightly higher on the priority list (33%) This lack of time dedicated to customer satisfaction correlates with the finding that this activity was 5th on the list of objectives for the product management organization.

Within the development and operations focus area, prioritization of feature requests and release planning were identified as the highest priorities with 70% of respondents rating these activities as high or very high priorities. The next highest priorities were program management for development projects and requirements analysis and definition, each rated by 61% of respondents as high or very high. This assessment is consistent with the degree of time focus overall on new incremental product development and ongoing management and support of mature products.

“The people themselves are well respected, but the process is completely misunderstood.”



Portfolio Management is in Its Early Stages

Overall, increasing product revenue and profitability is the number one objective for these organizations, however how time and effort is allocated by product managers points to the conclusion that achievement of this goal is tied to incremental changes to existing product lines. This point highlights the lack of time available for in-depth market analysis and investigating potential new market opportunities as well as the lack of focus on a proactive product retirement process to free up resources to work on those new ideas. Coupling the lack of focus on new product introductions with an equal lack of time spent on decommissioning products (considered the lowest priority by more than 70% of these organizations), leads us to conclude that strategic product portfolio management is a nascent concept for the financial services sector.

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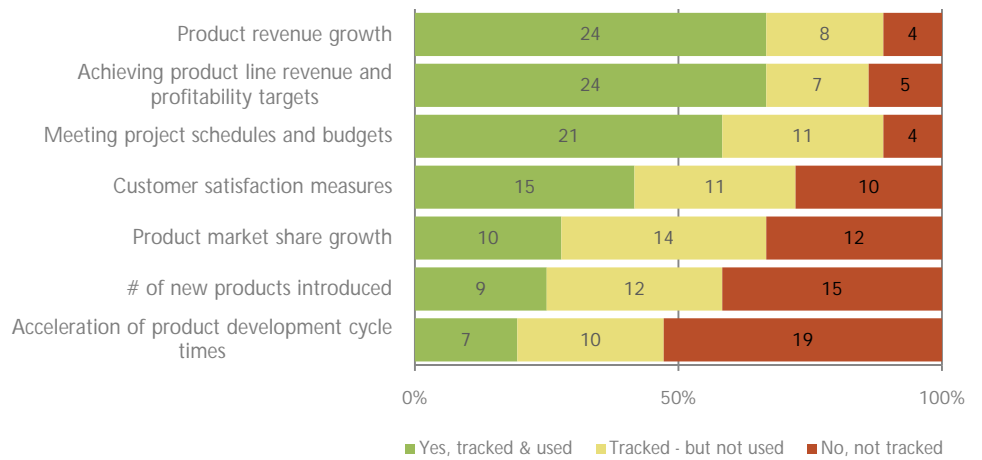
PRODUCT MANAGEMENT
IN FINANCIAL SERVICES

“ It’s unfortunate that operational issues get such high priority but they do. If a regulatory or compliance issue pops up, everyone will be assigned but the idea is that we don’t get into the situation.”

Performance: It’s What You Measure That Matters

It comes as no surprise that product line revenue and profitability targets were both rated as the top objectives by an overwhelming majority of companies and that these measures were used and tracked by 86% of the organizations.

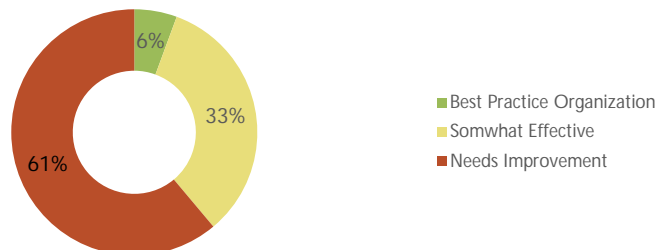
At the same time, the acceleration of product development cycle times and the number of new products introduced were the least important objectives and tracked by 25% or fewer of the organizations. Product market share growth and customer satisfaction (fourth and fifth respectively) were identified as less important than other objectives.



In MIDIOR’s view, meeting project schedules and budgets, as an important and tracked objective, may be a good measure of project management practices but does not have the business impact that will drive a leadership position in the marketplace. We wonder if the lack of focus on product development cycle times and the number of new product introduced indicates a lack of attention to competitive position and identification of new revenue opportunities. As the discipline of product management matures, we would expect these measures to become more important.

A Self Review

Turning a critical eye to how product management is currently performing, just 6% of participants felt they had a highly effective, best practice organization. Fully one-third of the organizations (33%) recognized that there were many areas needing improvement and rated themselves as somewhat needed to move along the continuum toward a best practice organization.



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PRODUCT MANAGEMENT
IN FINANCIAL SERVICES

This benchmark study of product management in the financial services industry reveals that awareness of the critical impact that skilled product management organizations can have on revenue and profits is growing and is getting "C" level attention. At the same time, organizations fall short in developing the core competencies around the discipline of product management and leveraging skill sets to optimize business impact. The data collected, plus anecdotal evidence, points to the fact that product management is not practiced as an understood business process but is highly dependent on the accomplishments of individual contributors. We conclude that there are four leverage points that offer an opportunity for financial services organizations to grow their competency in product management:

- As technology driven organizations, the objectives and focus is on project-based measures - every product is an IT project - rather than on product performance measures which relate to tangible business outcomes. The difference between project management and product management needs to be clearly defined and understood.
- Product portfolio management strategy must become a core competency. As the discipline matures, we expect to see a greater focus on getting new products to market and the deployment support necessary to optimize revenue streams.
- The optimal career path to senior product responsibility should include a tour of duty as a product manager, whether in financial services or another industry. MIDIOR finds that cross-pollination from other sector experience often provides a key advantage.
- A shift of focus from internal "management" of the product to a more external facing focus on customers and market understanding, is an important step toward building a best practice organization. The financial services industry has room for growth along this dimension.

For more information about research study results, contact MIDIOR at 617-864-8813 or by email at info@midior.com.

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MIDIOR Consulting
22 Putnam Avenue
Cambridge, MA 02139
www.midior.com

Phone 617.864.8813
Fax 617.864.7351
E-mail info@midior.com

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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.