SUCCESS AND FAILURE FACTORS IN DEVELOPING NEW BANKING AND INSURANCE SERVICES

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ABSTRACT

The development and introduction of new products is essential for a firm's survival. Numerous activities are administered in developing new service products. New product development management has control over the proficiency and choice of activities performed. The objectives of this study were to discover the factors that underlie the proficiency and development activities performed, and to see which are prone to lead a new service to success or result in failure. Unique characteristics of services suggest a different emphasis on development activities than are normally associated with the development of goods. Any differences in factors between the sample of banks and insurers were also investigated.

Results from a self-administered questionnaire and interviews with South African banks and insurers were attained by factor analyses, Mann-Whitney U tests and Step-wise discriminant function analysis. It was found that successful projects are; synergistic with the firm's resources and skills, they embody a competitive advantage and rely on a degree of service newness that is not too uncomfortable for consumers, they are also developed with insight into consumer's behaviour. Banks are better at conducting detailed prediction studies than insurers. Comparatively, insurers are better at integrating cross-functionally all the necessary departments. Step-wise discriminant analysis revealed sales growth and profit objectives to be the performance measurements that significantly predict and classify new successful services.

No factors for failed service products were found. Limitations of the research are acknowledged and suggestions are made for further research into the topic.

DECLARATION

I hereby declare that this research report is my own unaided work, except to the extent indicated in the acknowledgements and references and by comments included in the body of the research report. I further declare that neither this report nor any part of it has been submitted for any degree or examination in any other university.

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NICOLA OLDENBOOM

_____day of_____, 1998

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CHAPTER 1: INTRODUCTION

INTRODUCTION

This study deals with the discovery of significant success and failure factors in the development process of financial services. This empirical survey revealed significant tasks and conditions needed for the development of new services in South African banks and insurance firms. Critical differences in key development factors between the two types of firms, banks and insurers, were also assessed. Development of new services from acquisition or joint venture development was beyond the focus of this study since this has its own risks such as key personnel leaving or failing to co-operate (Johne & Storey, 1998). This study establishes that it is important for South African managers to learn more about the intricacies of product (that being goods and services) development.

In a market economy, developing and introducing new products is essential for a firm's survival. Some observers of new product trends in the United States of America expect that by the year 2000, 50 percent of profits will come from products that are five years old or younger (Ali, 1994; Cooper & Kleinschmidt, 1987a). Such a prediction may be made because in many industries the pace of product change is accelerating with the speed of change in technological development. There are shorter product life cycles, more intense competition, and fragmentation of markets, possibly due to differing market needs (Lin & Dwyer, 1995; Yoon & Lilien, 1985). Deregulation amongst the different financial firms caused a greater choice of cross-functional products offered by each. Further, in South Africa the ending of capital and trade sanctions by the European Community resulted in competitive forces intensifying as foreign investors return to the South African market (Davies, 1995).

Managers who wish to keep up to date with competition and the rate of change, have to face the reality that, in general, new products are "high risk endeavours" (Cooper & Kleinschmidt, 1987c, p.215). Many new products ultimately fail in the marketplace, resulting in massive financial losses (Urban & Hauser, 1993). Although in financial services it has been claimed that financial losses can be low (Davidson, Watkins & Wright, 1989), there are numerous hidden costs to be considered. These indicate the waste of managerial time and effort, the effect of failure on corporate image, and the loss and constraints implied from used resources. Furthermore, the product may not be withdrawn once launched, and resources have to be absorbed in maintaining and supporting it for existing users (Easingwood, 1986).

Although 70 percent of new product expenditures are devoted to products that fail or are cancelled, research concludes that many new product outcomes are within a manager's control (Calantone & Di Benedetto, 1990; Cooper, 1979b; Cooper & Kleinschmidt, 1987a). It is therefore necessary to examine the South African managers' new product development actions, to determine if anything may be changed so as to affect the final performance of a new product. Even though numerous articles and books focus on understanding the determinants of new product success and failure, the ability of managers to predict or affect the success rate has not greatly improved (Griffin & Page, 1993; Power, Kerwin, Glover, Alexander & Hof, 1993; Wind & Mahajan, 1988). In a landmark study it was noted that for every seven new projects that enter development, only two survive testing, and only one becomes a commercial success (Booz, Allen, and Hamilton, 1968). In a repeat study 14 years later no improvement in the success rate of new products was observed (Booz, Allen, & Hamilton, 1982). Yet Hopkins and Bailey (1971) report a 40 percent failure rate after launch for consumer goods, and Hopkins (1980) notes a median failure rate of about 35 percent for industrial new products. All in all, various estimates from 30 percent to 90 percent have been suggested in the literature as being the extent of the

failure rate for new products. Crawford (1979) puts forward a number of reasons for such a difference in failure estimates between new product development studies.

Crawford's (1979) findings show that differences in results are caused by the usual sampling and non-sampling errors. Researchers have to make clear what their study defines as a new product, for example whether it is a significant new entry or a 'me too' imitation. A me too product is basically an imitation of a successful competitors product (Keegen, Moriarty & Duncan, 1995). When comparing failure rates it is also important to know at what point in the development process the new product was considered to come into existence. Was this at launch, or some time before that, such as at test markets. Moreover there are many criteria against which to score the performance of a new product; the method chosen will affect the validity and comparability of the results. Most studies nowadays use performance criteria that are probably based on a combination of the financial and the non-financial goals (Hart, 1993). Studies involve *post hoc* subjective judgements are less likely to result in accurate estimations. Also, the time period from the launch of the product to the measurement of performance differs among research studies, thus affecting the estimates. For example, some products are slow to become successful, and if measured too early would be considered to be failures. In addition, the difference in product type and extent of innovation shown by the firms may result in different failure rates reported in different studies. However, whatever the rates of failure, if it is possible to affect the results positively through the actions of management, it is worthy of research (Crawford, 1979).

Another reason to explore the success and failure factors of innovation in South Africa is that over the past two decades most of the academic literature has focused on North America (for example, Cooper, 1982; Cooper & De Brentani, 1991; Cooper & Kleinschmidt, 1987a,b,c; De Brentani, 1989, 1993).

Many firms rely not only on domestic markets but also on foreign markets for successful exploitation of new products and services. To be internationally competitive managers perhaps need to understand the innovation activities of firms from a wider perspective. Academic research has begun to identify innovation success factors in other countries, such as Australia (Atuahene-Gima, 1996), China (Parry & Song, 1994) and Spain (Sanchez & Elola, 1991). In line with this research trend, this study aims to investigate the successful development of new financial services in South African banks and insurance firms.

Even though the services sector is increasing in economic importance, the services new product development literature regarding success and failure is embryonic, and based on knowledge gained from the manufacturing sector (Cooper & De Brentani, 1991; De Brentani, 1989). Manufacturing firms are more experienced in formal innovation processes than are service firms (Cooper & De Brentani, 1991; De Brentani, 1989). In the light of the increasing economic importance, marketers may be required to understand better the successful development of services. The question of success or failure across a spectrum of service providers is often described by Rathmell (1974, p.14) that "new services happen" rather than are formally developed. These include Gummesson (1989, p.84) who says "we have yet to hear of service designers" in describing the state of new service development. More recently, Gronroos (1990), concludes that such an observation seems to be evident in a large number of existing situations and Lageard, Reffait & Eiglier (1986, in Martin & Horne, 1993) express the belief that new services happen as a result of intuition, flair and luck rather than good planning, strategizing and research which is observed in the development of manufactured goods that perform well (for example Cooper & Kleinschmidt, 1986). Although initial research indicates that goods manufacturers and service providers do focus on similar development activities for improving performance (Edgett & Jones, 1991; Scheuning & Johnson, 1989; Shostack,

1984), the service development process cannot be exclusively based on a goods manufacturing process. This is because service characteristics are fundamentally different and require different marketing strategies (Berry, 1980, in McGoldrick & Greenland, 1994; Lovelock, 1983) as well as placing unique demands on managers in the innovation process of services (Wind, 1982). The service characteristics of intangibility, perishability, heterogeneity, and simultaneous production and consumption suggests different relative importance and means of fulfilling each development activity in the new product development process (Atuahene-Gima, 1996). Influences of these service characteristics therefore need to be included in the manufactured goods activities of the new product development process.

There are many necessary activities or steps in the development of a product (whether goods or services). The completion of an activity for a successful product does not imply that it has a direct significant relationship with the product's financial performance. This activity may also occur in the development of a product that performs unsuccessfully. Thus, any exploration into the critical activities for performance must investigate both successful and failing products. The set of activities that belongs to the development of a new product may be statistically grouped together to form a factor. This study will examine which developmental factors have a direct impact on a service's success or failure. Broadly, the problem question and the propositions to be addressed are as follows:

Problem Questions

What are the success and failure factors in the 'new product development activities' and 'tasks of efficiency' for new services? Do banks and insurance se. ices differ in these factors?

A number of propositions have been developed from the literature in accordance with the problem questions:

1A Specific predominant factors underlie the 'new service development activities' of banks and insurers.

1B Specific predominant factors underlie the 'tasks of efficiency' involved in new service development of banks and insurers.

2A The intensity of factors of 'new service development activities' differs for services which are successful and those that are failures.

2B The intensity of factors of 'tasks of efficiency' differs for services which are successful and those that are failures.

3A There is a difference in the intensity of each factor of 'new service development activities' between banks and insurers.

3B There is a difference in the intensity of each factor of 'tasks of efficiency' between banks and insurers.

The findings of the research around these propositions within the South African scenario will unfold in the remaining chapters. A detailed explanation of the terminology 'product' and 'new product' is examined in Chapter Two. In Chapter Three, the steps of the development process are discussed, including the impact each has on a product's final financial performance. In some cases the literature highlights differences in the development activities of a service compared with a good, and these are reported in Chapter Four. The literature quoted in Chapter Five introduces the definition and various forms of measurement of successful and failed products. A number of reasons for the success and failure of a service are discussed in Chapter Six. Chapter Seven acquaints the reader with the financial industry of the South African banks and insurers from which the

study's sample will be drawn. The study's propositions are introduced throughout the literature review of Chapters one to Seven. The methodology chapter, Chapter Eight, outlines the methodology used and the results are reported in Chapter Nine. The final chapter (Chapter Ten) leads from a discussion to managerial recommendations and a conclusion, as well as noting the relevant limitations and assumptions of the study.

CHAPTER 2: DEFINITION OF NEW PRODUCT

2.1 DEFINITION OF PRODUCT

Before this study can discuss the developmental procedure needed for successful new products, it is necessary to understand the concept of a product and the different categories of new products. A firm offers a product to satisfy the present or potential needs, wants or business objectives of its customers (Bearden, Ingram, & LaForge, 1995). Firm offerings are in exchange for money or some other consideration (Schoell & Guiltinan, 1995). A product refers to any tangible or intangible service, idea (McCarthy & Perreault, 1993), or combination (Bearden, Ingram & LaForge, 1995). Overall, the definition used in this paper embraces:

> "Anything that is offered to a market for attention, acquisition, use, or consumption and might satisfy a want or a need; it includes physical objects, services, persons, places, organisations, and ideas"
>
> (Kotler & Armstrong, 1994, p.276)

Even though a product may be a combination of a good and a service, it has been shown many times that the management tasks involved in marketing a predominately service oriented product differ from the management tasks required to market a manufactured good (Lovelock, 1991). This is due to differences in several generic dimensions. It is important to evaluate the generic differences of services, as a number of the management tasks required to market the products are found within the development process of a new product (Easingwood, 1986). Understanding these different management tasks within the development process is part of this study (see Chapter Three). Any differences due to generic influences in the activities that make up the development process are considered in later chapters (see Chapter Three and Four).

The first generic difference is product intangibility Berry (1980, in McGoldrick & Greenland, 1994, p.42) declares a good to be "an object, a device, a thing" whereas "a service is a deed, a performance, an effort". It is this absence of physical substance that renders services more difficult to understand and evaluate. Pre-purchase evaluation of an alternative service is hampered by a paucity of search qualities, that is, tangible clues as to the quality or features of a service. This would influence the development process such as where and how the service concepts are tested in the market (McGoldrick & Greenland, 1994). Intangibility is a matter of degree rather than an absolute nature, as illustrated by the continuum or "scale of element dominance" proposed by Shostack (1977, p.77). From Shostack's continuum of tangible to intangible products, financial services are situated more towards the intangible end, yet not at the extreme; many contain significant tangible elements on which they can be evaluated or judged, such as Automatic Teller Machine (ATM) cards, financial statements, and insurance certificates. It has long been recognised that these tangible clues or items of physical evidence give the consumer a more concrete basis on which to make their choice (Booms & Bitner, 1981; Shostack, 1977).

The second generic characteristic is 'simultaneity'. Simultaneity describes how the consumer is in concurrent contact and involvement with the production and consumption system of the service (Lovelock, 1991). Goods may be produced at a certain time to be consumed at a later time. There is the possibility that the good is supported by customer service. In marketing a service however, such support is always required (Johne & Storey, 1998). This gives services the distinctive characteristic of simultaneity. Services are time bound and experiential, even though they have lasting consequences (Lovelock, 1991). These experiential qualities would suggest that services have attributes which can be evaluated only during consumption or after the purchase. Thus they cannot be sampled or returned, only cancelled, and in some cases irreversible damage may have been done. In some respects,

simultaneity holds true for a limited range of financial services. McGoldrick & Greenland (1994) question the point at which insurance policies or savings accounts are actually consumed. The face that insurances cannot be fully evaluated unless the occasion for a claim arises adds to the uncertainty. When services cannot be evaluated even after purchase, they are said to be high in 'credence qualities' (McGoldrick & Greenland, 1994). The difficulty associated with evaluating service options leads consumers to rely heavily on personal sources of communication placing a greater emphasis on the advertising and communication tasks (McGoldrick & Greenland, 1994).

Simultaneity leads to some services being more prone to variation in quality. This is known as 'heterogeneity' (McGoldrick & Greenland, 1994). With production and consumption being an interactive process (Gronroos, 1977), quality becomes dependent upon the consumer's ability to express what is required, as well as on the erratic moods of staff and vagaries of technology. Some financial services have greater potential for variation than others. Technology can be employed within some financial services in order to industrialise the service and improve consistency (Levitt, 1981), but the standard of financial advice, for example, are far more vulnerable to the shortcomings of human nature (Lovelock, 1991). Operationally this requires constant training and practice by supplier staff (Johne & Storey, 1998).

Lastly, because a service is a performance rather than a tangible item it cannot be stored, and this gives rise to 'perishabilty' (De Brentani, 1991). Suppliers must synchronise supply and demand, not simply with respect to the number of tellers or staff on duty, but also by offering convenient trading hours. However care should be taken, because not all services possess the attributes of intangibility simultaneous production and consumption, heterogeneity, and perishability; and some manufactured goods may possess one or more of these characteristics. Clearly these are four dimensions "along which services and manufactured products differ in degree rather than kind" (Easingwood, 1986, p.265).

McKechnie (1992) supplements these four general goods-services distinctions with two further distinguishing features relevant to buying behaviour in financial services. Features that are related to consumer's buying behaviour and customer acceptance must not be ignored in the development of a new service (see, for example, Cooper, 1980). Adherence with regard to the two supplementary features are a financial institution's fiduciary responsibility and two-way information flow.

The supplier who takes responsibility for looking after the buyer's funds and welfare, with the knowledge that ultimately the consumer is buying a set of promises, is undertaking a fiduciary responsibility. It is rare that there are sufficient dependable search qualities to validate promises, and therefore client trust and confidence in the institution and its personnel are imperative. In addition to trust and personal sources of information, consumers rely on cues such as the size, image and length of existence of the organisation to indicate whether the promises are likely to be fulfilled. This development of trust is important because it can bring about a degree of stability in customer/supplier relationships (McKechie, 1992). Customer loyalty in the financial services sector is currently declining and customers are more likely to use several financial institutions (Lewis, 1989).

Secondly, financial services may involve a series of regular two-way transactions, usually over an extended period of time. The two-way information flow creates a great deal of confidential information. This information may then be used in new products to influence behaviour through both customer retention and customer acquisition programmes (McGoldrick & Greenland, 1994).

2.2 NEW PRODUCT CATEGORIES

The terms new service or new good or as is collectively defined here as new product, is confusing because these meanings vary widely (Lamb, Hair & McDaniel, 1994). Most marketers define a new product as one that must be "introduced" to the market (Keegen, Moriarty & Duncan, 1995, p.404). Booz, Allen, & Hamilton (1982) found others who say a product may be new to the world, the market, the producer, seller, or some combination of these. No matter where or for whom the product is new, it must have the dimensions of product difference and customer perception difference in order to be considered new. In other words, a new product must differ in significant ways from products already being offered in a particular market. So too must it be perceived as new by a group of customers (Keegen, Moriarty & Duncan, 1995).

The various definitions and types of new products are created as a result of a firm's strategic plans. Ansoff's (1968) classic product-mission matrix (Table 2.1) classifies a firm's growth strategies along two dimensions. The first dimension "product" refers to the decision whether to stay in existing product areas or develop new product areas. The second dimension of "mission", refers to the decision whether to enter a new market or stay with present markets. This matrix shows the strategic relationship of a product that is new for the firm, or those that are new missions, or both. The difference between mission and customers is that a mission is an existing product need whereas a customer is the actual buyer of the product (Ansoff, 1968).

Figure 2.1 Product–mission matrix

PRODUCT / MISSION	PRESENT	NEW
PRESENT	**Market Penetration** Increase in market share for present product market	**Product development** Creates new products to replace current ones
NEW	**Market development** New missions are sought for the firm's current products	**Diversification** Both product and missions are new to the firm

Source: Corporate Strategy (Ansoff, 1968, p.99)

A financial example of the strategies mentioned in this matrix is as follows:

Figure 2.2 Example of financial strategies in product–mission matrix

PRODUCT MARKETS / MISSION	EXISTING PRODUCT AREAS	NEW PRODUCT AREAS
EXISTING BANK CUSTOMERS	**Market, Penetration** Increase in market share by more effective marketing and cross selling of existing products i.e. product improvement	**Product development** Development of new products and services such as cheque accounts, ATM card-based services i.e. new product lines
NEW BANK CUSTOMERS	**Market development** Develop marketing campaigns to attract new customers for example students and first time home buyers i.e. product line extensions	**Diversification** Enter new business sectors by start-up/acquisition for example, insurance broking, and computer home banking i.e. new products, new markets

Source: adapted from McGoldrick & Greenland (1994)

The strategies involved in penetrating a market, developing a product or ...rching and entering a new market (market development) all involve expansion. New product development involves the development of a new product, but targets the same customers. On the other hand, market penetration does not rely on new products or missions but rather on better marketing plans. Market development relies on current products being sold to previously untapped customers whose needs can be addressed by this product. Diversification is more risky because it involves a simultaneous departure from familiar missions and familiar products (Ansoff, 1968).

All the products used to fulfil the different growth strategies differ in terms of their potential impact on the firm. Some involve new processes or technologies; others do not. Similarly, from the marketing point of view, some new products will be seen as offering very new benefits while others will be viewed as offering only modest improvements over existing products. To understand why the process of managing new product development should vary in different situations, it is necessary to know the degree to which a product is new to the firm and new to the market (Schoell & Guitinan, 1995).

Firstly, a product that is new to the firm can fall into any of the following four categories: product modification, product line development, entry into a related category, and entry into an entirely new category.

- *Product modification* the enhancement of the quality of an existing product. If IBM computer were to improve the speed of its personal computer by using more powerful silicon chips, this degree of product newness would apply.

- *Product line development* is the addition of new products that serve a different segment of the same market. For example the addition of new routes for an airline.

- *Entry into a related category* is the development of a new product that serves customer needs that are different but related. By developing speech recognition soft ware, for example, Apple is offering items that will complement its hardware products in meeting consumer's information-processing needs.

- *Entry into an entirely new category* is a diversification strategy. In general firms are more knowledgeable about processing, producing and marketing products that are less new, so it should be easier for them to estimate the costs and risks associated with those kinds of products. The supermarket Pick 'n Pay have diversified into providing banking services.

Secondly, new products differ in terms of the ease with which buyers will accept them. Usually, acceptance is related to the degree of innovativeness (that is, the degree of newness to the market). The degrees of newness are breakthrough innovations, pioneering innovations, adaptive innovations, and imitative new products.

- *Breakthrough innovations* are innovations that involve major changes in technology leading to the creation of new product categories. Such innovations are also called discontinuous innovations or inventions (Keegen, Moriarty & Duncan, 1995). The economist Mansfield (1968), at the beginning of the search for understanding and planning for successful new product development, refers to inventions as what an inventor has created but an innovation is the full evaluation, utilisation and final commercialisation of the invention. Examples of this are the first computers, the telephone, and the aeroplane.

- *Pioneering innovations* are improvements to a product's form or function that are so substantial as to render obsolete existing products in the category or to create major new subcategories. E-mail is one that seems to replace fax machines (Schoell & Guitinan, 1995).

- *Adaptive innovations* are innovations that involve enhancements to establish products that may have a distinctive feature but do not add major new benefits (Schoell & Guitinan, 1995). Smaller size cellular phones are far more convenient, yet fulfil the same function as the larger options. The introduction of new uniforms for service personnel or new design of a chequebook may be classified as a style change.

- *Imitative new p oducts* are basically copies of existing products produced by other firms. Typically firms that develop such products try to compete with the established brands by either under-pricing or offering better reliability. Such products are often termed 'Me-too' products (Lamb, Hair & McDaniel, 1994). For most firms imitation of new products is far easier than dealing with intangible concepts. It does not take long for a new financial service to be replicated by competitors who are positioned for the same consumers (Martin & Horne, 1993).

Lovelock (1984b) suggests a number of categories specific to service development, from style changes to major new innovations. The categories appear to be a mix of Ansoff's (1968) product–mission strategies (that is, start up business) and the separate categories of just product focused (that is, style changes) and market focused (that is, new products for a currently served market). In this study the wider range of categories by Schoell & Guitinan (1995) are more useful in commenting on the span of innovation activities involved in developing a new service.

Lovelock's (1984b) new product categories are notes as follows by Johne & Storey (1998, p.189):

- *Major innovation* involves new product for markets as yet undefined and unidimensional.

- *Start-up businesses* involve new products for a market that is already served by existing products which meet the same generic products.

- *New products for the currently served market* involve new products that attempt to offer existing customers of the organisation a product not already available there.

- *Product line extensions* represent an augmentation of the existing product line or different method of service.

- *Product improvements* involve changes in certain features for existing products currently on offer to the currently served market.

- *Style changes* involve highly visible changes to existing products.

A company may procure new products in a number of ways such as acquisition-by buying a company, patent, or licence, or through research and development (R&D). Acquisition may also include an arrangement classified as some type of collaborative venture. Collaborative ventures allow two or more firms to share in the rights to market specific products (Bearden, Ingram & LaForge, 1995). A further way to procure new products is through product development in the company's own R&D department or some multifunctional research group (Kotler & Armstrong, 1994). As the degree of market newness increases, it becomes more difficult to predict market acceptance, and marketing tasks become more complex. Generally this means that the marketing activities associated with the product development process will be more complex (Schoell & Guitinan, 1995). For the R&D personnel to co-ordinate the great many separate activities, some form of control for the process to move in logical progression. Control is created when a firm designs a phased review workflow process that cuts across functions to improve the development of new products (O'Conner, 1994). A logical phased review system of development is discussed in the next chapter.

CHAPTER 3: STEPS OF DEVELOPMENT

3.1 INTRODUCTION

It is well known that the rate at which a product's economic development matures is accelerated by technological changes, competition, and market needs (Davies, 1995; Edgett & Jones, 1991). This in turn necessitates the development of new products. Those firms, which decide to conduct research and development to obtain new products, as opposed to acquiring or buying them (Lin & Dwyer, 1995), do so in a sequential step-by-step method. Theoretically, a new product passes through a sequential model of steps from setting objectives, to generating ideas, screening, market analysis, concept testing, business analysis, product development, testing, launching the product to a market and finally a post launch review (Booz, Allen & Hamilton, 1968; Buijs, 1979; Cooper, 1990; Easingwood, 1986; Keegen, Moriarty & Duncan, 1995). In the past the knowledge to develop any new product was based on manufactured goods (Johne & Storey, 1998). Conversely, Sheuing & Johnson (1989) provide a suitable flow diagram of the financial services development process (Figure 3.1). Any sequential new product development model is an ideal analytical tool to demonstrate step-by-step the stages that a new product goes through during its development. However, in reality, the steps often occur in parallel to each other. Different product ideas may also be developed at the same time. Steps developed in parallel as well as various new projects developed at the same time are beneficial for interdepartmental communication and reduction in production time. On the individual project level, the number of steps involved and the time needed to undertake some of them thoroughly, may result in a large time span for development. For example, it took National Westminster Home Loans 18 months to design and establish their Flexible Mortgage (McGoldrick & Greenland, 1994). On a larger scale, parallel projects are beneficial in that if one project fails the information learnt may be used to continue and

improve other projects that are progressing along the development steps behind it (Nelson, 1959). National Westminster's Flexi Two-mortgage project only took six months to develop. Unfortunately a rush to the market can sometimes lead to insufficient screening or testing which results in poor performance or failure (McGoldrick & Greenland, 1994).

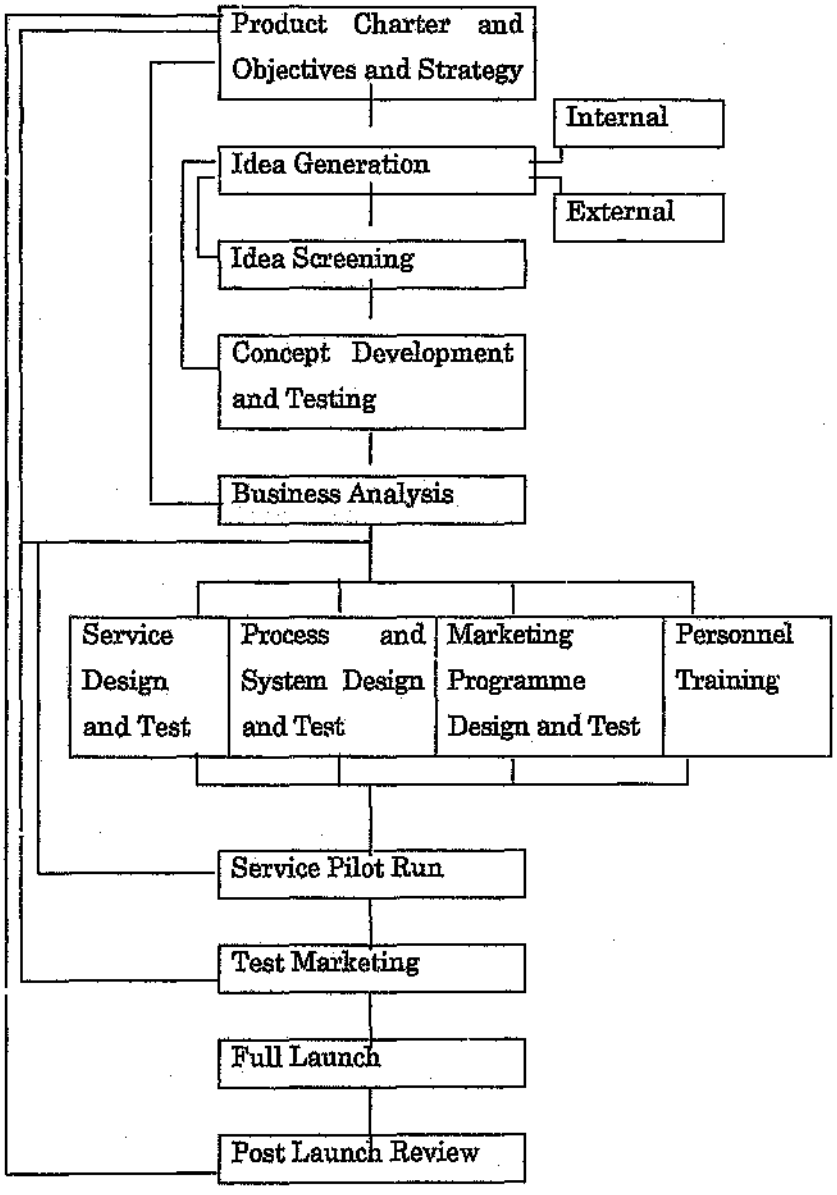
It is advisable not to by-pass any development steps, as research shows that the expected financial benefits gained by taking a new product idea through each stage of development have been calculated to be worthy (Wind, 1982). Johne & Snelson (1988) also found that project success and completeness of the development process are correlated. It is, however, important to recognise that not all new products go through all the stages; the sequencing and length of time of each stage may vary from product to product. The duration of development of a product depends on such things as the complexity of the product, management's commitment and expertise, actions of the competition, and the firm's attitude to risk (Keegen, Moriarty & Duncan, 1995). As stated earlier (Urban & Hauser, 1993), risk is high when new product development costs are wasted on products that ultimately fail. So, if the firm undertakes to follow the preliminary steps, a manager can make 'kill/go' decisions early, before costs increase exponentially (Power, Kerwin, Glover, Alexander & Hof, 1993).

Attitude to risk is observable through the firm's decision to develop more than one new project at a time. A project's development will be faster if similar projects are being developed in parallel. Parallel projects efforts can be switched to an apparently better project without having to start from the beginning stage again, thereby saving on time and information costs (Nelson, 1959).

On the whole a review of each separate step gives insight into the specific activities needed, and provides guidance on a potential product's development process. In Chapter Four, specific differences in generic characteristics of services to goods are highlighted and evaluated with

regard to the new service development process. In Chapter Five, suggested reasons for a new product's success (or failure) are discussed. Much of a product's performance is based on the adherence to (or disregard of) the fulfilment of the new product development activities that make up each step. Figure 3.1 illustrates the various steps for developing a new financial service. This figure is slightly different from the normal manufacturing new product development process. Financial services are on the whole intangible: the tangible development phase so common to a manufacturing process is bypassed and more importance is placed on the designing and testing of the processes, service, marketing programme and training of the personnel (Sheuing & Johnson, 1989). The first of the new product development steps should be an overall product charter.

Figure 3.1 Financial Product Development Process



Source: Adapted from Sheuing & Johnson (1989)

3.2 OVERALL NEW PRODUCT CHARTER

Firstly, the basic new product charter specifies the roles that the product must play in the organisation's overall strategies. In other words, the overall plans link the new product development process to the objectives of the marketing department, to the larger business unit, and finally to the corporate plans. The product charter is designed to guide the firm's cross-functional subset of activities charged with developing new products (Crawford, 1980). Secondly, it describes the characteristics of products the organisation wants to offer and the markets it wants to serve (Booz, Allen & Hamilton, 1982). Thirdly, this step states what the company wants from its new products, whether be it high cash flow, market share, or some other objective. It should also state the effort to be devoted to developing breakthrough projects, changing existing ones, and imitating competitors (Kotler & Armstrong, 1994). These plans differ depending on whether the inspiration to develop a new product comes from competition, technology and/or the identification of market needs (McGoldrick & Greenland, 1994).

Subjective influences on the planning should be minimised through the use of systematic evaluation methods such as rating scales. In reality planning the strategy for the development of a new product is complex because the process is inherently entropic. Planning tends to be disordered because it involves people with different skills and varying perspectives on how new product problems should be solved. A further complication is that much of the process involves dealing with a financial service that is an intangible concept rather than a tangible one. The process also requires the management of creativity, and it is particularly easy to focus from a technical orientation with new product ideas and projects (Feldman & Page, 1984). In the end this plan sharpens the focus for idea generation, and provides guidelines for screening and evaluating new product ideas (Booz, Allen & Hamilton, 1982).

3.3 IDEA GENERATION

In the attempt to improve performance, managers may formally plan and adopt a proactive approach to idea generation. Formalisation may result in a firm's efforts consciously to structure the idea flow through group methods or by individual management processes (Rochford, 1991). On a less formal scale ideas may occur on an *ad hoc* basis. Formal or informal ideas originate from sources internal and external to the firm, examples of which may be found in Table 3.1 (Crawford, 1991).

Table 3.1 Sources of New Product Ideas

Source / Structure	Internal	External
Formal	R & D Technological surveys Internal market research Creativity techniques from strategic plans	Marketing research New product consultants Research institutes Universities Government
Informal	Ad hoc suggestions from anywhere in the organisation	Customer suggestions Volunteered suggestions Accidental intelligence Competitive reaction

Source: Adapted from Feldman & Page (1984) and Rochford (1991)

External ideas come from customers, distributors who are closer to end-users and aware of needs, competitors, and outside consultants (Lamb, Hair & McDaniel, 1994). Keegen, Moriarty & Duncan (1995) advocate that when new technology is involved, universities and government agencies are especially good sources for ideas. Yet in an earlier classical study by Jewkes, Sawers & Stillerman (1969) into the sources of invention, it was found that less than five percent of innovations in half a century had come from universities or the government.

Internal sources include individual employees, marketing, production, and R&D. One study found more than 55 percent of all new product ideas came from within the company. In this study, the marketing and the R&D functions responded with the most ideas and were considered the most important sources (Lamb, Hair & McDaniel, 1994). Some highly technical firms such as Hewlett-Packard used this approach, as did such consumer firms as Revelon and Pillsbury in a 1980 study of new product planning in the United States of America (Crawford, 1980). Another study found that while the source of ideas for most industrial products was research (internal source), the source of ideas for consumer goods tended to be competitive products (external source) (Lawton & Parasuraman, 1980). This can explain why products sold to industrial users (that is, those usually developed in R&D) clearly tended to be more innovative than those sold to individual households (which are usually products copied from competitors) (Lawton & Parasuraman, 1980).

Ideas generated within the organisation by group methods can occur at various organisational levels. Types of group methods which can be used to develop ideas include Delphi groups, focus groups, innovation or new product development groups. Most authors favour a multidisciplinary innovation group for idea generation as being the most effective (Buijs, 1979; Davis & Pearson, 1980) although, Davis & Pearson (1980) argue that an individual's idea generation produces better and more creative solutions than groups.

There are many formal techniques for generating new product ideas within innovation groups or individually. Basically, idea-generating techniques can be classified as systematic analytical techniques (whereby the problem is split into smaller parts), associative techniques (such as brainstorming), or analogical techniques (such as synetics where problems under investigation remain a secret so that more imaginative ideas flow) (Mathot, 1982; Trott, 1998). Crawford (1987) classifies the idea generation techniques in terms of whether it is necessary to identify unmet needs or to modify and or improve existing products. To develop solutions for unmet needs he recommends the

Problem Find/Solve approach which relies on market research and brainstorming methods. Moreover, to create new products, the Fortuitous Scan approach involves listing desired attributes, which may result in more incremental improvements. No matter what method is used, the setting aside of time for idea generation is considered an important factor for success (Rochford, 1991).

In the literature, sources themselves are presented as lists of between one and three word descriptors. This is not very effective, and the brief identifiers obscure any insight about the inception of the idea (Stash, LondsDale & LaVenka, 1992). Stash *et al.* (1992) developed a framework for classifying sources of new product ideas to include all potential sources of ideas, and relates those sources to the specific environmental situation(s) that led to the idea. This framework could help practitioners to a better understanding of new product idea development. Secondly, Rochford (1991) believes that many people within a firm do not know how to enter an idea into the new product development process. The proposed classification scheme could help managers redesign the firm so that all employees could be more effective in identifying and capturing new product ideas (Stash *et al.*, 1992).

3.4 SCREENING

Scarce resources and high stakes, render it important to know what type of new products to seek and select actively for development (Ali, 1994). Screening eliminates ideas that are obviously inappropriate or inconsistent with the organisation's new product strategy (Lamb, Hair & McDaniel, 1994). Product development costs rise greatly in the later stages of new product development process, so relatively poor ideas need to be eliminated in the earlier screening stages (Kotler & Armstrong, 1994). As in idea generation there are a number of approaches to screening (Cooper & Kleinschmidt, 1986):

1) Group decision based on informal discussion
2) A single individual made a decision on an informal basis
3) A group decision, based on a formal checklist of criteria

Some businesses often rely only on executive intuition to identify the best available ideas (Fe 'man & Page, 1984). Others use a checklist or a systematic point scoring procedure to evaluate ideas more rigorously (Page & Rosenbaum, 1992). According to Page & Rosenbaum (1992), the screening method used should incorporate a systematic and objective assessment of the market's interest in the proposed product or service represented in the idea. However at the initial screening stage management's opinion may be the only 'data' available (Rochford, 1991). One recommended approach for screening is to utilise a multi-stage process (Cooper, 1984). Some recommend a three step process of culling, rating, and scoring, with possible sub-steps within each category (Rochford, 1991). One could also apply a two-step process utilising a quick or coarser screening process and then subjecting the remaining ideas to finer screening. The main point of a multi-stage approach is to subject ideas to the lower cost (in terms of time and information required) and more restrictive initial screens followed by passing the fewer pre-screened ideas through the more costly screens (Rochford, 1991). The screening methods may be categorised as qualitative and quantitative. The more qualitative, 'yes/no' methods may be employed in the earlier screens and the more quantitative methods used later.

This initial screening amounts to subjecting the project to a handful of key 'must meet' and 'should meet' criteria. These criteria deal with strategic alignment, project feasibility, magnitude of the opportunity, differential advantage, synergy with the firm's core business and resources, and market attractiveness (Johne & Snelson, 1988). In Cooper's (1990) view financial criteria are not part of this first screening, yet the screening can involve viewing the potential scale of product liability which has serious ethical and legal consequences (McCarthy & Perreault, 1993). However, others believe that marketing criteria tend to take a secondary role to financial

considerations and to the level of corporate, production, and technical synergy achieved in the new product. The dominance of the latter factors leads to the development of low risk, incremental product updates that almost fit existing business activities (Gluck & Foster, 1975). In a study of financial services within the United Kingdom by Edgett (1993), less than 20 percent used a formal checklist, whereas a majority (approximately 78 percent) reported informal screening of new ideas. This was further supported when 67 percent of the respondents when responded negatively asked if their firm used a new product evaluation committee. Even those firms that used group decision format all reported using informal methods to assess the new ideas (Edgett, 1993).

It must also be realised that ideas which are discarded from the screening process should be saved as alternatives to be used when selected ideas are either passed onto later stages in the new product development process, or dropped when additional resources are available. Market or technology changes can occur which can change the disposition of previously rejected ideas (Rochford, 1991).

3.5 Concept Development And Testing

Concept tests are used to evaluate a new product idea, usually before a prototype has been made (Lamb, Hair & McDaniel, 1994). This relatively inexpensive (Feldman & Page, 1984), detailed version of an idea aims to evaluate the idea from the consumer's perspective, unlike the initial screening which evaluates the idea from the strategic viewpoint of the firm. Typically researchers obtain target market consumers' reactions to descriptions and visual representations of a proposed product (Lamb, Hair & McDaniel, 1994).

A range of qualitative reviewing techniques can assist at this stage, such as the discussion of 'fact sheets', evaluation of advertising drafts, various projective techniques, and role reversal whereby customers take on the role of

the product management team. Although a good screen and concept test provides a rough approximation of interest, it does not sufficiently predict the market performance of the final product (Page & Rosenbaum, 1992). An estimate of sales volume is uncertain because people do not always carry out their stated intentions expressed in market research (Moore, 1992). Therefore it may be inadvisable to decide to introduce the product onto the market based upon these results alone (Page & Rosenbaum, 1992). Hill (1990, in McGoldrick & Greenland, 1994, p.209) stated, "High loyalty to banks and building societies, plus enormous inertia, make estimating very difficult: i.e. people say that they will acquire/buy/invest/ but they never quite get round to doing it".

In the United Kingdom among banks and building societies, limited use of concept testing and test markets was reported by Davidson, Watkins & Wright (1989). Morgan's (1989) study helped explain this by finding that less than 40 percent of his sample had a formal marketing research unit and that most of this group (85 percent) had been in existence for less than five years. These research groups also mainly consisted of only one or two employees. Half of these employees had never instigated this type of testing. A number of developers are of the opinion that there is no need for market research because the risks in copying from competitors are perceived to be relatively low. Ennew & Watkins (1992) and Langeard *et al.* (1981) found that management's perceptions of consumer preferences and intentions were frequently wrong. In Johne & Storey's (1998) review it was noted that a number of researchers found that if testing was done, it was inadequate.

For all types of products the steps and activities cannot be truly separated from each other. In reality concept development and tests form part of market research, which occurs continuously throughout the new product development process.

3.6 MARKETING STRATEGY DEVELOPMENT

The new product marketing strategy introduces the product to the market. This step is planned gradually throughout the new product process, but is now finalised before development, during the evaluation stages of business analysis. The strategy consists of three parts: firstly, it describes the target market, planned product positioning, sales, market share, and the profit goals for the first few years. Secondly, the strategy outlines the product's price, distribution, and the marketing budget for the first year. Thirdly, it describes the planned long-run sales, profit goals, and the marketing mix strategy (Kotler & Armstrong, 1994). The marketing strategy and final product concept are needed so that an informed evaluation can be made in the business analysis of the attractiveness of the business.

3.7 BUSINESS ANALYSIS

Once management has decided on its product concept and marketing strategy, it is able to evaluate the business attractiveness of the proposal. A business analysis involves a costs and sales forecast, discounted cash flow analysis, return on investment analysis, payback period and/or break-even analysis. So too could an analysis provide superficial information such as rough guesses and estimates (Cooper & Kleinschmidt, 1986) to help discover whether the products satisfy the company's objectives (Kotler & Armstrong, 1994; Lamb, Hair & McDaniel, 1994). Newness of the product, size of the market, and nature of the competition all affect the accuracy of revenue projections (Cravens, 1991). Revenue projections are far more profitable if a new product can be produced using a company's current facilities, since this does not require investment in buildings and equipment (Keegen, Moriarty & Duncan, 1995). At the end of this development stage, management should have a good understanding of the product's market potential. From this stage onwards, as a product enters the production development stage, costs increase dramatically (Lamb, Hair & McDaniel, 1994).

Developing a good in this stage involves creating a prototype that is internally tested (Lamb, Hair & McDaniel, 1994). Development time is extended, during which the project is at risk of being overtaken by technology change, competitor actions, or changes in consumer tastes (Easingwood, 1986). The prototype often undergoes technical assessment in model development, capacity and/or feasibility analysis, engineering assessment. This is to determine if a new product meets the set product specifications, safety standards, and performance standards (Kotler & Armstrong, 1994; Cooper & Kleinschmidt, 1986; Schoell & Guiltinan, 1995). This may be true for testing any physical aspects of a service. A second stage of goods development often takes place before market testing (Lamb, Hair & McDaniel, 1994).

The product development stage common in goods is bypassed in the development production stage of a core service. In its place there is an emphasis on the design and testing of the processes and systems that support the intangible concept of a financial service (Johne & Storey, 1998). As with goods, this assessment and development begins with internal laboratory tests, and then, if good results are attained, by in-house testing groups (Kotler & Armstrong, 1994). Processes and systems of a service are built or added on to the existing systems. Systems are tested and 'debugged'. Frontline staff and support staff are trained and equipped to supply the service to customers (Sheuing & Johnson, 1989). The individual sections are designed and tested, followed by a comprehensive service test and pilot run. These occur before the product is pilot tested on the target market.

The development stage works best when all the involved functional areas (R&D, marketing, engineering, production, and even suppliers) work together rather than sequentially (Lamb, Hair, & McDaniel, 1994). New product development has traditionally been organised into an orderly sequence of steps from idea generation to commercialisation. Under this sequential

product development approach one department works individually to complete its stage of the process before passing the new product on to the next functional department and stage. This orderly step-by-step process can help to control complex and risky projects, but can be dangerously slow for a fast-competing environment. In order to release a product onto the market more quickly, firms are adopting a more flexible, simultaneous product development approach. Here, all the relevant functions work together during all stages, with several steps typically performed simultaneously (Bearden, Ingram & LaForge, 1995) to save time and increase effectiveness (Kotler & Armstrong, 1994).

There are potential drawbacks. Firms may skip steps that could provide important information regarding market acceptance or reduced manufacturing costs. There is a concern that preoccupation with development speed will result in trivial innovations rather than the pioneering and breakthrough innovations that companies and society desire (Schoell & Guiltinan, 1995).

3.9 TEST MARKETING

If the product passes functional and consumer tests, the next step is test marketing, the stage at which the product and marketing programmes are introduced into more realistic market settings. Product testing, which can be considered to be part of market research, occurs before a product goes into full production. It is the stage in the production process during which a product is introduced in a limited way to determine the reaction of potential customers in a market situation (Lamb, Hair & McDaniel, 1994). Test marketing also allows the marketer to find potential problems and to learn what additional information is needed before embarking on the expense of a full introduction (Kotler & Armstrong, 1994). Despite the cost, many firms believe it is more advantageous to fail in a test market than in a national introduction. The high price of failure simply prohibits the widespread introduction of most new products without testing (Lamb, Hair & McDaniel,

1994). Yet, due to the high cost of test marketing, some companies do not test line extensions of well-known brands (Lamb, Hair & McDaniel, 1994). Firms are also hesitant to test in the market place for fear of competitors, who are in the process of developing similar products, to avoid their gaining pre-launch knowledge of the products.

Test marketing is part of the marketing research that occurs throughout the development process. Concept testing, test marketing, product testing, focus groups, mail questionnaires, telephone surveys, and consumer panel discussions are all part of market research (Edgett, 1993). In the United Kingdom's financial services sector, internal research techniques have a greater frequency than the external marketing research methods used. The two often used internal research approaches are competitor analysis and secondary data analysis (Edgett, 1993).

Market research is not only helpful in formulating marketing strategies, but is used throughout the new product development process to aid managers to make decisions that are as accurate as possible. Lawton & Parasuraman (1980) indicate that market research is most beneficial for products that are least innovative. With truly innovative new products there is usually no extant market demand from which to gather information and develop a strategy further (Johne & Snelson, 1988). In these cases a more creative and entrepreneurial approach is useful that involves the interpretation of wider socio-economic trends in order to identify potential applications (Johne & Snelson, 1988). As stated earlier, consumer products, in comparison to industrial products, tend to be less innovative (Lawton & Parasuraman, 1980). However, appropriate use of R&D and marketing research can greatly improve the productivity of new product planning (Lawton & Parasuraman, 1980).

3.10 COMMERCIALISATION

The final stage in new product development process consists of activities necessary to begin selling the product. This involves [illegible] production materials and equipment, starting production [illegible] inventories, shipping the product to the field distribution points, training the sales force, and advertising to potential customers (Lamb, Hair & McDaniel, 1994). The importance of involving others and gaining commitment in the launch of an insurance product was stressed by an interviewee in Johne's (1993, p.439) study: "Promotional campaigns are given a high profile so that everyone knows what is happening in advance. A third of what you do in product development is promoting to your own people. If the sales force are not on your side, then it is never going to get into the market place successfully".

3.11 POST LAUNCH REVIEW

All the participants in Easingwood's (1986) study of new product development for service companies in the United Kingdom practised post-launch assessment. There was a stronger likelihood of a formal assessment at the post-launch stage than at the pre-launch stage (61 percent compared with 26 percent). One of the major difficulties is assessing cost performance (this is discussed in Chapter Five). The two main cost measurement difficulties are related to the characteristics of the service product. A new service frequently shares the delivery system with other existing services. It thus becomes difficult to apportion the costs to the new service. In some cases no cost is assigned to the new product because no extra costs were incurred. This though could be possible only for a limited number of services. Another problem in assessing costs is the lost contribution caused by the 'cannibalisation' of the company's other products. Yet, financial institutions often have computerised records of their customers that permit a before-and-after launch comparison (Easingwood, 1986). A post launch evaluation and monitoring programme is important because an effective launch is a success factor for services. However a highly visible launch can lead to faster

competitive response (Johne & Storey, 1998).

These are the desired development stages that mainly goods evolve through (Cooper, 1990). Although not all products adhere to all the stages, or sequence, the latest literature which has begun to separate services from goods. Further recent findings suggest that there is a noticeable difference in the product development of new services from that of goods (Atuahene-Gima, 1996; De Brentani, 1991; Martin & Horne, 1993). Yet services still have much to gain from the extensive goods literature. Combining the traditional development activities outlined in this chapter with further service specific activities, a proposition for the underlying predominant development factors will be suggested in Chapter Four.

CHAPTER 4: DIFFERENCES FOUND IN SERVICE PRODUCTS

4.1 INTRODUCTION

There is a question as to whether the activities that make up the steps in the new product development process model for services are markedly different from those for goods (Atuahene-Gima, 1996). If there is a difference this needs to be taken into account when determining the new product development factors for successful and for failed services. The generic differences between goods and services have implications for new product development process (Atuahene-Gima, 1996). This chapter discuses how the characteristics of services influence the activities of the new product development process. Some differences in the emphasis placed on completing new product development steps have already been noted.

In the past, new product development researchers (such as Cooper, 1975, 1982; Cooper & Kleinschmidt, 1987; De Brentani, 1989, 1990; Link, 1987) have not separated the examination of goods and services. Booz, Allen, & Hamilton's (1982) report describes approaches taken by several business sectors, including the consumer durables sector, the consumer nondurables sector, and several industrial sectors, but it does not report separately on the practice among service organisations (Easingwood, 1986). However, services are a major sector (over half) of modern, western economies, and this justifies an examination (O'Conner, 1989).

As stated earlier, the management of services differs from that of manufactured goods along generic dimensions or characteristics. The differences are manifested in characteristics of intangibility, simultaneous production and consumption, the possibility of heterogeneous performance every time service is delivered and, finally the perishability or lack of ability to store services (De Brentani, 1991).

4.2 INTANGIBILITY

It can be seen how these characteristics influence the process of development in various ways. Designing and launching a new or modified service generally does not involve a physical prototype or major investments in raw materials or plant. Because services are intangible and consist of processes and experiences, they are perceived as relatively easier to develop and modify, which lead to product proliferation (De Brentani, 1989; Easingwood, 1986). Product proliferation can place severe demands on the operations personnel. It is they who have simultaneously to prepare and sell the product to the customer. The additional number of products released, the greater the burden (Easingwood, 1986). Definitions of a new product are extremely varied (Ansoff, 1968) and the perception depends on the role of the individual involved and extent of newness to the firm or market (De Brentani, 1993).

The lack of physical investment into intangible products has led firms to become relatively informal or *ad hoc* in their new product development process. Formality of innovation processes entails structure, planning and fulfilment of predevelopment activities. De Brentani & Cooper (1992, p.238) exploring financial services in Canada, found that the quality of the " 'up-front' or 'predevelopment activities' - screening, market studies and research, technical appraisals, project evaluations and similar studies - were very weak". Similarly the quality of 'post-development activities', that being the e execution of launching and marketing activities, was rated lower on average that has been found in studies on physical products. These findings of informality in planning contradict the conventional wisdom for tangible new products that use a planned product development system (Easingwood, 1986; Martin & Horne, 1993).

Informality and lack of planning are also evident in the fact that service organisations rely heavily on competitive imitation and/or customer canvassing to foster new ideas (Martin & Horne, 1993). Competitive imitation is also encouraged by services not being patentable and usually requiring little up-front investment. Intangibility affords firms the opportunity to imitate competitor products quickly, or to respond more efficiently to changes in market needs. Some authors do warn firms which move too quickly often experience problems with the results of their new product development process, such as poorly researched service concept, haphazard design process, inadequate testing and too little planning for an effective market launch (Bowers, 1986; Easingwood, 1986; Shostack, 1984a).

To make decisions and plan for new products, managers require information (see, for example, Parry & Song , 1994). Besides secondary sources, primary information is available through market research. Many service companies are expected to make financial projections of sales, profits, cash flows, and other financial estimates for the proposed new product, but only a small majority of Easingwood's (1986) United Kingdom companies based these projections on market research estimates of intentions to purchase, trial rates and other market research. In Australia, this behaviour is said to be symptomatic of the lack of a strategic approach (Atuahene-Gima, 1996). Eliminating failures at the test market stage usually saves the much larger costs of a national launch for goods. This argument would be expected to apply equally well for services; for instance, it has been argued that the slow adoption of needlessly complicated postal codes by British mailers could have been anticipated and avoided had wider consumer testing taken place. In the United Kingdom the use of 'classical' test marketing among the service companies surveyed was limited (Easingwood, 1986). Any test marketing performed in the United Kingdom banks was primarily to make sure the new product was operating correctly. So a low-key introduction is therefore primarily to identify "bugs and make final corrections" (Easingwood, 1986,

p.273). Classical test markets are not used more widely because a number of new products are introduced to neutralise an apparent competitive product advantage (Mohammed-Salleh & Easingwood, 1993). These new products would still be introduced even if sales expectations are limited, and so a test would not be relevant (Easingwood, 1986). Speed to launch is therefore probably of prime importance for those targeting the same market, and market's reaction to the concept may be according to the response to the competitor's product. For many of the service companies the cost of a test market would not be appreciably less than the cost of a full launch, so it is understandable that the test might be by-passed in this intangible offering (Easingwood, 1986). Besides the competitive imitations, in another study of United Kingdom financial institutions, test markets are said to be similarly rarely carried out for the less common strategically 'new innovations' (Mohammed-Salleh & Easingwood, 1993). But as Klivens (Mohammed-Salleh & Easingwood, 1993) points out, there has to be a full commitment to the design of the new system, whether for a test or full launch, so it might as well be for a full launch. Another problem for test marketing a financial product is that making the product available to only part of the network can be problematic. The mobility of customers makes it difficult to test money transmission products (Mohammed-Salleh & Easingwood, 1993).

4.3 SIMULTANEITY AND HETEROGENEITY

Finally the intangibility of the service calls for the discretion of the frontline staff as customers simultaneously experience the process of production and consumption. The human element in the production of the service experience suggests that quality control (or standards) is more complicated in services. The more intense the contact with consumers the higher the chance of variability or heterogeneity of the product outcome. It is often the service personnel that are the sole contacts before and after delivery of the product, such as in life insurance services (Atuahene-Gima, 1996). To maintain

control and improve customer's perception of technical quality and lower costs, firms could standardise services, but this hampers customisation. A standardised service also reinforces a process orientation and uniformity, diverting operations personnel from a marketing orientation that is so much needed for success in the product development process (Edgett, 1993; Lovelock, 1984a). Therefore, for the achievement of quality control and customisation, effective self-management of service personnel could be achieved through training (Atuahene-Gima, 1996). It is also important to remember that many financial products are delivered through 'expert personnel' who make perform judgmental tasks, unlike most goods, so the need for the training activity is again stressed (De Brentani, 1991).

The quality of personnel is a variable that contributes to a firm's image or reputation. Service expertise is analogous to production and product quality for goods; it captures the degree of professionalism and training of the personnel associated with delivery the product. Intangibility can make it difficult to assess a product, and customers look towards a firm's reputation for reassurance when purchasing a service (Parasuraman, Ziethaml & Berry, 1984, in Lovelock, 1991). Easingwood's (1986) study confirms the importance of this product development activity among services. It was found that 28 percent of all new products are planned so as support or enhancement of the business's image or reputation. Yet in a recent survey customers' reservations about buying all their financial products from one source were highlighted. Only 46 percent of the customers showed interest in buying all their financial products from one place, and this was mainly for reasons of convenience. The other 54 percent preferred to search for more competitive rates and to spread their risks by not distributing their money to more than one bank (Nedcor Intelligence Monitor, 1998).

Another special characteristic of many services is simultaneous production and consumption. A consequence of this is that the locus of new product

influence, usually found somewhere between marketing and R&D may, in services, have shifted towards operations. Operations, by virtue of close physical contact with the customer and an understanding of the capabilities of the operations people, may have valuable contributions to make to the new product development process (Easingwood, 1986). As suggested by Shostack (1984a), designing a service successfully, requires active involvement from a much broader set of functional specialists than those involved in the manufacturing sector.

4.4 PERISHABILITY

Perishability reflects the fact that service products, unlike physical products, cannot be stored. This leads to problems of matching demand and supply (Lovelock, 1983, 1984a), and implies a greater need for teamwork among the different functions in a service's new product development, than in a new good's development, to ensure matching consistency in demand and supply (Atuahene-Gima, 1996). It also implies that new services are faster and more efficient, that line additions make use of existing operating systems during low demands; and that it is necessary to offer alternative peak load versions of a product when organisations are strapped to capacity (Berry, 1980, in McGoldrick & Greenland, 1994, 1980).

According to the literature, therefore, service characteristics affect the emphasis placed on certain activities undertaken during new product development. Unlike the development of goods, new service development is less formal, with the consequence of product proliferation. The formality and use of classical test marketing among the service firms is limited or even non-existent for imitation services. The testing of new services is often to correct logistical faults rather than to discover consumers' perceptions. The development process also requires a larger number of specialist functions and/or departments than does the manufacturing process, so as to provide

product quality control. Effective teamwork amongst the service firm departments will promote a better matching of consumer demand and the firm's supply of the new product.

The literature highlights a number of differences in the emphasis placed on certain new product development activities for services compared to goods. It cannot be assumed that the factors for developing services are the same as those reported in the literature for goods. Hence the first proposition is based on the finding that there are specific factors which underlie all the activities present in the service development process. Each factor may comprise of the general activities undertaken to develop a new goods product (as discussed in Chapter Three) and those that are affected from the service characteristics. Each new product development activity for a service has to be stated in the research instrument in such a way as to suggest success or failure. A question such as "Did you conduct a business analysis?" may be answered positively for both failure and successful services. One needs to know not only if the step was completed, but to what degree and how efficiently. This will be covered in Chapter Six. That Chapter's statements form part of the activities that underlie the factors in proposition 1A.

PROPOSITION 1A:
Specific predominant factors underlie the 'new service development activities' of banks and insurers.

CHAPTER 5: DEFINING SUCCESS AND FAILURE OF NEW PRODUCTS

5.1 DEFINITIONS

New products are developed with the clear intention of achieving success, yet this outcome can arrive in many different forms. As Madique & Zirger (1985, in Hart, 1993, p.25) state, "Success is defined as the achievement of something desired, planned or attempted", and failure is the non-achievement of targets set. Yet in developing new products it is necessary to know the aim of the project in order to determine if it was successful or not.

5.2 PERFORMANCE MEASUREMENT CRITERIA

Hart (1993) provides a review of the dimensions and criteria of success in several fields of product development. Her review study of the success measures can be classified into two groups: financial and non-financial. Of all the studies reviewed by Hart (1993), the financial measures used can be grouped under a number of headings, which refer to the base of the measurement: profit, assets, sales, capital, and equity. These are operationalised into statements along the lines of 'the sales growth achieved' (Cooper, 1984; Hart & Service, 1988) and 'percentage of profits attained by this new product' (Cooper, 1979; 1980; Calantone & Cooper, 1981; Link, 1987). Some authors say that financial criteria are the only true measures of success, while others believe there are other important benefits that may occur from product development. As Madique & Zirger (1985, in Hart, 1993), further stated, "while financial return is one of the easily quantifiable industrial performance yardsticks, it is far from the only one. New product 'failure' can result in other important by-products, organisational, technical and market developments". Cooper & Kleinschmidt (1995) later emphasise

that the measurement of new product performance has a multidimensional quality, suggesting that a purely financial focus would be inappropriate.

There are a number of reasons for criticising the measurement of success on a unidimensional scale of finance. Firstly, the nature of the objectives of the new product may not be financially oriented. Therefore if, for example, the objective was "to reduce competition in the market by the introduction of a low cost new product, it would be highly inappropriate to measure performance in terms of profit since it is clearly not the intention to maximise profits, but rather to improve market share" (Hart, 1993, p.25).

Secondly, the measurement of financial success relies on the respondent's memory. Performance often has to be measured by indirect and relative measures, such as whether 'acceptable levels were reached' (Calantone & Cooper, 1981; Cooper, 1979; 1980; Link, 1987). The reasons for using indirect measures, tend to relate to the problems of persuading respondents to share what might be considered sensitive information (Hart, 1993). An example of this indirect measurement is found in Davies (1995, p.12) who used "three of the top ten products which were introduced in the past five years or thirty percent of current sales volume being made up by new products introduced over the past five years" as the definition of a successful new product.

In response to these criticisms of unidimensional financial measures, researchers have introduced 'softer' non-financial measures. Few, however, are empirically derived (Hart, 1993). Non financial measures of success can be grouped into five categories: technology, market, design, commercial, and activity measures (Hart, 1993). Technical success has been measured by the "degree of patent protection" (Cooper, 1982, p.216) and "innovativeness" (De Brentani, 1991, p.39) or according to whether the new product introduces a

new category to the firm (Cooper & Kleinschmidt, 1987a,b). These do not take the objectives of the new product development into consideration. The same may be said for the market-based measures, which try to assess whether or not the new product development programme has "opened up new markets for the firm" (Hart, 1993, p.28). The market impact is where new products achieve high market shares, both domestically and abroad (Cooper & Kleinschmidt, 1987a). An exception to these criticisms is for design-based studies, as product design was the primary focus for the studies and for sample of firms involved (Walsh, Roy, and Bruce, 1988; Ughanwa & Baker, 1989).

Commercially based measures are disadvantaged by a degree of vagueness (Ayal & Raban, 1990), especially those that ask respondents to make a once-off, subjective evaluation as to whether the project was a failure or a success (Ayers, Dahlstrom, & Skinner, 1997; De Brentani, 1993). However, companies are far more likely to reply when asked about subjective or overall assessments of success than when they are asked to impart confidential information such as, proprietary share, volume, margin, or customer satisfaction for individual products (Griffin & Page, 1993). Little reference is made to the nature of the guidance on the dimensions against which performance should be assessed. Activity based measures are split into those which "determine the extent of product development activities within the firm and those which determine the proficiency of these activities" (Hart, 1993, p.28). Johne & Snelson (1988) apply an indirect, relative measurement, assessing the regularity or extent of updated products in the relation to the competitive nature of the market. This measurement is a surrogate for experience, in that those companies which regularly introduce new products have more experience and can be regarded as leading product innovators (Johne & Snelson, 1988). Johne (1994, in Johne & Storey, 1998), argues that the conventional approach of setting hurdles for internal

performance criteria has failed for competitive purposes because it ignores market potential.

The measures which relate to the proficiency of activities include direct measures including, the number of successful launches (Hart & Service, 1988) and the "rate of success, failures and kills over a period" (Cooper, 1982,p.218) as well as indirect, relative measures, such as "the success of the programme in relation to its objectives" (Cooper, 1984, in Hart, 1993, p.28). Gauging the extent and proficiency of product development activities allows an assessment of the innovativeness and success of companies' development programmes (Hart, 1993).

A number of these measures are not addressing the success of the individual project but the effect the project has had on the innovation programme level (McGoldrick & Greenland, 1994). Johne & Pavlidis (1991, in McGoldrick and Greenland, 1994) review studies that addressed the issue of product development success in banking. It was observed that success could be measured at two levels: project level and programme level. A specific project may therefore fail to meet the financial or market share targets set, whereas it may contribute to the success of an overall programme. Such a contribution could arise through spin-offs in technology, expertise and publicity (Hart, 1993).

Many empirical investigations have measured factors associated with success at the project level (Cooper, 1984; Cooper & Kleinschmidt, 1987a,b,c; Maidique & Zirger, 1984; Rothwell, 1974; Rubenstein, Chakrabarti, O'Keefe, Souder, & Young, 1976). Fewer have set out to measure factors specifically associated with success at programme level. The difference between these two measures of success is important. Gluck & Foster (1975) show that it is easy to claim short-run success for individual new products, particularly

when these are of a low risk nature, but they may jeopardise the long-run success of the business.

At programme level, Cooper (1984) identified three main measures:
(1) relative track record, which is the proportion of successful developments as opposed to those killed before launch
(2) relative impact, which is the extent to which product developments account for a certain proportion of current sales and profits, and
(3) relative performance in terms of the strategic success of the product innovation program.

Relative impact is the mea[illegible]hat reflects the ability of a business to enhance its existing produ[illegible]d to develop new lines. This measure is important for managers competing in the fast moving product markets because studying its determinants can provide insights into procedures aimed at growing a business such as how tasks can be undertaken efficiently so that a high proportion of current sales stem from enhanced or new products and how tasks can be undertaken as fast as or faster than competitors (Johne & Snelson, 1988). Relative impact is one of the performance criterion that will be used in this study to measure programme performance. The measures mentioned originated from the manufacturing literature of new product development.

5.3 Service Success Measurement

De Brentani's (1989) study shows that overall indicators used for gauging the performance of new physical products are also relevant for services. The service/physical good distinctions, however, do affect the precise manner in which new service success is measured. For example, because services are intangible buyers frequently rely on company reputation when evaluating a

new service; the achievement a positive corporate image for superior quality for trustworthiness or expertise can be an important form of success for service firms. Similarly, because customers often come in direct contact with the delivery system (simultaneity) and since quality and what buyers receive is so closely linked to how services are delivered, both the outcome of the service and the service experience can vary each purchase occasion (heterogeneity). Hence for new services, measuring 'market success' involves not only the buyer's view of what is being bought but also the consumer's experience. Finally, due to the production inefficiencies created by the perishability factor, service firms might focus their new service development efforts more specifically on achieving cost reductions. Yet Griffin & Page (1993) tended to find that managers concentrate heavily on the short-term financial and sales measures, as well as, how the projects proceed in terms of team performance.

The following 17 criteria used to measure success are common to new manufactured goods, with adjustments made to account fully for the factors that distinguish services from physical products. Table 5.1 shows these dimensions as they are used in part to measure service success in financial services (De Brentani, 1989). A selection of these dimensions will be used to measure performance in this study. Success on one independent dimension does not necessarily mean success on any other criterion (Johne & Storey, 1998).

Whatever the criterion for measuring success, there are no simple formula for achieving it. In the case of financial services it is particularly difficult to isolate the inherent success of a product (McGoldrick & Greenland, 1994). Some activities and conditions considered to be necessary for successful development are discussed in Chapter Six.

Table 5.1 Dimensions used to measure service project success

1 SALES /MARKET SHARE PERFORMANCE
• Exceeded market share objectives
• Exceeded sales/customer use objectives
• Exceeded sales/customer use growth objectives
• High relative sales/customer use level
• High relative market share
• High overall profitability
• Strong positive impact on company image/ reputation
2 COMPETITIVE PERFORMANCE
• Superior service outcome and experience relative to competitors (perceived)
• Superior unique benefits relative to competitors
• Resulted in important competitive advantage
0 OTHER BOOSTER
• Enhanced sales/customer use of other products
• Enhanced profitability of other products
1 COST PERFORMANCE
• Substantially lowered costs for firm
• Performed below expected costs
• Achieved important cost efficiencies for the company

Source: De Brentani (1988,1989)

CHAPTER 6: REASONS FOR SUCCESS AND FAILURE

6.1 INTRODUCTION

A post-implementation review of performance could highlight the actions and conditions needed for a product to become successful or at least avoid failure. In order to determine the problems of product innovation, a number of studies have probed the innovation practices of firms. It is not sufficient to know what the activities are that contribute to the development process for a service (see Chapters Three and Four), but how to execute them to fulfil firm objectives. One initial research direction has been the study of new product failures. The rationale was that by understanding the firm's deficiencies, management could take steps to avoid or overcome errors (Cooper & Kleinschmidt, 1988). These only looked at one side of the two aspects involved only the successes or only the failures, but not both at the same time. Simply because a characteristic is found to be common to a group of failures does not necessarily mean that this characteristic is a reason for the failure. This characteristic might well be found in success studies, if they were carried out (Cooper, 1980).

A second direction has been towards investigation of the differences between new product successes and failures, in an attempt to understand the important discriminating variables (Cooper, 1979; Cooper, 1979b; Maidique & Zirger, 1984; Rothwell, 1974). Such studies identify critical characteristics of projects, and key facets of the innovation process (Cooper & Kleinschmidt, 1988).

From an examination of four relevant articles (Atuahene-Gima, 1996; Cooper, 1979a; Cooper & Kleinschmidt, 1987a; De Brentani, 1991) to explore variables that critically impact on success and failure, it was suggested that discussion should be focused on the following broad areas: management support; cross functional integration; product advantage; synergy; and

proficiency. Proficiency in technology, market research, product planning and the launch effort, were particularly noted as critical. A brief discussion on these broad areas provides suggestions on how the new service development activities (from Chapters Three and Four) should be phrased so as to test for Proposition 2A. Proposition 2A dete: ines which of the dominant factors for developing a new service induces a significantly different performance amongst well and poorly developed services.

6.2 PRODUCT ADVANTAGE

Most writers (for example, Cooper, 1990; De Brentani & Cooper, 1992; Urban & Hauser, 1993) agree that to succeed, whatever the market, the firm needs to be able to offer something appropriate, different, or better. The principle of sustainable competitive advantage argues that a firm can only be successful in the marketplace if its services have a competitive edge over those of its rivals (Cravens, 1991). But a sustainable product advantage and a propriety position are more difficult to achieve in services (De Brentani & Cooper, 1992). A product has a differential advantage if it adheres to the following criteria: it performs unique tasks; it is perceived to offer significant benefits or higher quality, or image to the consumer; it has a high performance-to-cost ratio; or it offers financial advantages (cost-benefit) to the consumer (Calantone & Cooper, 1981; Cooper, 1979a, 1980; Cooper & Kleinschmidt, 1986, 1987b; De Brentani, 1989; Link, 1987; Maidique & Zirger, 1984; Zirger & Maidique, 1990). Link (1987) believes that success will be more readily obtained if the advantage offered by the product does not require a major change in attitude or behaviour from the consumer. This is particularly true for services that require a high degree of customer participation (Lievens & Moenaert, 1994, in Johne & Storey, 1998).

Booz, Allen & Hamilton (1982) conclude that companies most likely to be successful will be those that develop their own new products internally. This suggests that competitive imitation is less likely among successful firms. An imitated service or "me too" product has no unique product advantage for those imitating firms (Keegen, Moriarty & Duncan, 1995, p.411). Nevertheless, Martin & Horne (1993) find no discernible difference between successful and unsuccessful service firms that used me-too strategies principally as a means of generating product ideas. It should be noted that Booz, Allen & Hamilton's (1982) study investigates both new product development of service and manufacturing firms, whereas Martin & Horne (1993) specifically investigated services. It has, however been noted by a number of researchers that even imitation products have to be appropriate, provide some benefit, or meet consumer's needs in order to perform adequately, for if they provide worse performance standards they will be financially doomed (Calantone & Cooper, 1981; Cooper, 1975; Davidson, 1976; Link, 1987; Zirger & Maidique, 1990). According to Johne & Storey's (1998) review of the financial service literature, it was found that product advantage on its own is relatively unimportant in separating success and failure; a difference in performance is explained rather by the variations in the whole service experience (Easingwood & Storey, 1993; Storey & Easingwood, 1994, in Johne & Storey, 1998).

One part of the service experience is the provision of appropriate support functions. Another aspect of product advantage is the provision of improved service expertise (De Brentani & Cooper, 1992). Service expertise is analogous to production and product quality for goods: it captures the degree of professionalism and training of the personnel associated with delivering the product. Because services are intangible and more difficult to assess before purchase, the firm's reputation for expertise is frequently the essence of the service that clients buy. Experts and professionals are judged to play an important role in the production of the service, and in the financial sector

of 106 Canadian firms, production employees are viewed by consumers to be highly trained and skilled (De Brentani & Cooper, 1992). On the other hand, frontline staff and those who rendered the service were not considered to be highly skilled or trained in the eyes of the Canadian consumer (De Brentani & Cooper, 1992). A second reason that successful financial services tend to be expert-driven is that in recent years computer and information technology has been responsible for the creation of many new services. Electronic banking is an example of a type of new service where technology and expertise are the essence of the service itself (De Brentani, 1993). Hence, new services which are strongly expert-based and which solve a real client need have a greater chance of success (De Brentani, 1993). However, it is not only the frontline staff and production experts who have to be well trained and committed to the innovation process – this is also necessary for the management of the organisation, as discussed in the next section.

6.3 MANAGEMENT SUPPORT

Most of the literature emphasises the critical need for long-term management commitment and support throughout the development process for success (for example Edgett & Jones, 1991). Commitment is shown in terms of personal attitude, company skills, finances and other resources. Top management should also be enthusiastic and support new projects otherwise established routines around existing products will not change (Edgett & Jones, 1991; McCarthy & Perreault, 1993). However, it has been indicated that too much management support, especially on a 'loser' project, can be a barrier to ultimate success by keeping project personnel involved in one approach or unpromising objective (Rubenstein, Chakrabarti, O'Keefe, Souder & Young, 1976).

Management needs the skills (Cooper, 1979b; De Brentani, 1989) to move the whole organisation towards the establishment of a supportive, innovative culture that is conducive to the achievement of company specific new product and corporate objectives (Kleinschmidt, 1994; Lamb, Hair & McDaniel, 1994; Martin & Horne, 1993). Management style and organisational structure should foster such a culture. Yet, employee dedication to the process cannot be maintained only through regular management contact and encouragement (Edgett & Jones, 1991); a commitment of funds to the varied stages of development is also necessary (De Brentani, 1993; Edgett & Jones, 1991; Kleinschmidt, 1994; Zirger & Maidique, 1990).

If managers are seen not to be in command of the process, they are usually replaced, in successful companies, by a product champion to ensure that ideas are carefully evaluated. This person, or product champion, needs to impart management's enthusiasm, otherwise a conservative leader may subvert good ideas and committee involvement may result in bureaucratic delays (McCarthy & Perreault, 1993). Such a product champion needs to push the product through the system and overcome the unnecessary delays and hurdles that occur throughout product development (Edgett & Jones, 1991; Maidique & Zirger, 1984; Zirger & Maidique, 1990). In development studies of successful as against unsuccessful new physical products, it has been found that many projects do not have a champion and firms know relatively little about how to identify, develop and reward such people (Wind & Mahajan, 1988). This is not necessarily the case in the service innovation process, as research indicates no significant difference in the involvement of champions between successful and unsuccessful firms. However, if there is a champion, successful service firms more often than unsuccessful firms allow champions the opportunity to stay and manage a service offering into the launch phase (Martin & Horne, 1993). In Johne's (1993) study of insurance firms, product champions are barely mentioned in the co-ordination and supervision of the development of a new service. Overall, the lack of an innovative culture

(Sarin & Kapur, 1990), management leadership and financial support (Davidson, 1976), and skills (Cooper, 1975) are found to compound the failing of a new service.

6.4 Cross-Functional Integration

The failure of a champion to communicate strategic plans and information to the developers results in wasted resources and dissipates new product efforts (Feldman & Page, 1984). Firms, whose products have failed, have stressed the need for better communication (Edgett & Jones, 1991; Sarin & Kapur, 1990) and for a balance between skills amongst the divisions (Calantone & Di Benedetto, 1990). To foster co-ordination and co-operation between the development sectors, product champions are often in charge of multi-disciplinary teams, which brings all the relevant departments together. Amongst manufactured goods, sectors needing to interface for success include the creating, technical production and marketing functions (Calantone & Di Benedetto, 1990; Cooper, 1979; 1979b, 1984; Gupta, Raj & Wilemon, 1985; Maidique & Zirger, 1984). Participation should begin from the time of problem definition (Sasser, 1976). This facilitates trust, information sharing and communication throughout the process (De Brentani, 1993) otherwise failure will occur (Sarin & Kapur, 1990). Souder (1981, in Davies, 1995) notes that the failure to integrate R&D and marketing early in the innovation process is one of the biggest contributors to new product failure. A protocol agreement between marketing and R&D on product performance specifications and final performance objectives, minimises conflict and misunderstandings (Crawford, 1984). The above-mentioned needs for co-ordination and co-operation applies equally well to services. In fact there is a greater need in services for a clear understanding of goals and teamwork amongst the divisions so that demands may be met, particularly since the supply of services cannot be stored. Co-ordination and co-operation is further relied upon as service heterogeneity leads to greater interdependence

between operations and marketing (Atuahene-Gima, 1996). This is discussed in Chapter Three not only is there a need for interface between the different departments, but the innovation itself, within the firm's capabilities, must also be synergistic for greater success.

6.5 SYNERGY

Synergy is described as the "2 + 2 = 5" effect to denote the fact that the firm seeks a product–market position with a combined performance that is greater than the parts" (Ansoff, 1968, p.72). From an economic and competitive viewpoint, "synergy is assessed by measuring the potential joint economies of scale and joint enhancements of performance which will result from the matching of competencies possessed by the firm with those required by the new environment" (Ansoff, 1968, p.72). Synergy is not, as a number of researchers have misinterpreted, the extent to which a new service fits the competencies of the firm (Atuhene-Gima, 1996; Calantone & Cooper, 1981; Cooper & Kleinschmidt, 1987a; De Brentani, 1989; Link, 1987). The new service has to be more than simply a good fit with existing services or resources of the company. It must benefit from the strengths and facilities in such a way that the combined effort is greater than the performance would be if the new and established services were working apart (Ansoff, 1968). Synergy appears to be an underlying requirement for success in the services industry (De Brentani, 1991).

Ansoff (1968) suggests several types of synergy:
Sales Synergy: This can occur when products use common distribution channels, common sales administration, or common warehousing. Opportunity for tie-in sales offered by a complete line or related product increases the productivity of the sales force. Common advertising, sales promotion, and past reputation can have multiple returns for the same dollar spent.

Operating synergy: This is as a result of better use of facilities and personnel, spreading of overhead, advantages of common learning curves, and large lot purchasing.

Investment Synergy: This can result from joint use of plant, common raw material inventories, tra . 'r of R&D findings from one product to another, common tooling, and common machinery. This still applies to the financial industry where hardware is used to aid delivery of the service to customers for example ATMs.

Management Synergy: If management when entering a new industry finds new problems that are similar to the ones it encountered and effectively solved in the past, it is in a position to provide forceful and effective guidance to the newly acquired venture.

Synergy is important in the instance of a diversification strategy where both the service and the market are new to the firm. Nevertheless, it cannot be ignored that even an adaptive innovation needs to positively synergistic with the firm or a negative outcome may result. Synergy may be positi e or negative. An organisation which is not set up to perform a new function can result in the total profitability being lower than the combined profitability of two independent operations (Ansoff, 1968). In prioritising new service ideas, synergy emerges as a strong predictor of success in terms of the firm's ability to benefit from its existing delivery systems, human resources, sales and market research and managerial skills (De Brentani & Cooper, 1992).

Unlike manufacturers, service providers report a greater ease of development (Easingwood, 1986; Wind, 1990), and need for quick responses to competitor introductions (Easingwood, 1986; Mohammed-Salleh & Easingwood, 1993),

and a lack of market testing may lead service firms to develop new services that are divergent from the current productions and skills (Easingwood, 1986). The disadvantage of a new product's incompatibility with current skills and assets, and the desire to match competitors quickly and to forestall imitations may result in disrupted routines, interdepartmental conflicts, and increased quality evaluation costs for the consumer (Atuahene-Gima, 1996). Such disruption and incompatibility are unlikely to lead to a positive synergistic outcome. Synergistic services that are compatible and that enhance the current positive image of the firm are a key ingredient for success (De Brentani, 1991).

Failure of a new service is possible not only as a result of a very negative synergistic product with the development process, but also due to the existing customer base. Failure is more prominent where there is a longer than usual time for a consumer to understand the benefits. This often occurs in the case of services where the new product varies from current customer consumption requirements and experiences, and thus the degree of learning and adaptation required by customers is greater (Atuahene-Gima, 1996).

Chapters Three and Four discuss the activities needed to complete the various new product development steps. Although all these are controllable by management, not all of the new service development activities are critical in determining the success or failure of the new product. Chapter Five explores the goods and services literature to impart an understanding of the important discriminating activities/variables between new product success and failures. Very little literature has been written about the success and failure criteria for new services. Moreover the author is unaware of any such research regarding the South African financial industry. Once the factors that make up the new service development process have been established from the list of activities (Proposition 1A), it is the aim of proposition 2A to determine which of these factors induce a significantly different performance

amongst the services. The factors may well appear in both successful and failed services, but it is the intensity with which they were carried out that significantly discriminates between the two.

PROPOSITION 2A:
The intensity of factors of 'new service development activities' differs for services that are successful and those that are failures.

Further new service development activities relating to a firm's technological orientation, market research tasks, launching activities, planning activities, are also incorporated in Proposition 2A's analysis. These tasks are not discussed here as they are reviewed in the efficiency section. 'How well' or efficiently each activity is performed in these development areas is discussed in Section 6.6.

6.6 EFFICIENCY

Efficiency is the final variable to be discussed that affects the success and failure of a new service. An analysis of successful and unsuccessful new services indicates that a formal and planned approach to new service development leads to better performance (De Brentani, 1991). Proficiency of every step would seem to be appropriate, but according to the literature only some are critical for success and these are discussed below (De Brentani & Cooper, 1992). In the literature regarding goods the quality of execution is strongly associated with project outcomes. For example, a strong market orientation, marketing proficiency, implementation of market research, and effective advertising, promotion and launch were found to be correlates of success (Cooper, 1979; Cooper & Kleinschmidt, 1987a, b, c; Maidique & Zirger, 1984; De Brentani, 1991). The service literature is however in debate as to the effect that efficiency has on successful performance and this demands a closer examination.

For services and goods it is not only the number of stages (and corresponding activities) executed that determines success but the quality of the stages undertaken (Cooper, 1979b; Cooper & Kleinschmidt, 1993). Quality is measured by level of skills, time and money spent on the development activities (Cooper, 1990). Examples of well managed, efficient activities are defined as follows: formal as opposed to informal planning (De Brentani, 1991), well defined product concept screening (Cooper & Kleinschmidt, 1987a,c, 1993), good market research, measurement of performance (Kleinschmidt, 1994), clearly defined benefits (Cooper & Kleinschmidt, 1993), and a well-defined target market (Cooper & Kleinschmidt, 1993; Edgett & Jones, 1991). Stages that are poorly executed or omitted will contribute towards failure (Wind & Mahajan, 1988). Edgett (1996) found that financial institutions are tending to omit large sections of the new service development process, and even when activities are carried out, these are done ineffectively. A review of the service firms' views on the technology, proliferation of market research, launch effort and planning will give more insight into the efficiency of the firm. Efficiency in each of these areas is discussed below.

6.6.1 Technology

For firms to be able to allocate resources efficiently amongst the best of all the new product ideas presented, it needs to set up screening criteria for acceptance or rejection in the development process. Products are more likely to succeed if they undergo screening. Besides screening there is a further continuous technical assessment throughout development. For goods no technical assessment is complete without an in-house prototype test and a pilot production before the full-scale launch (Cooper, 1980). Without such pre-development activities, physical products have known to fail due to technical difficulties and the underestimation of the difficulty of development (Cooper, 1975). Service development is not known for physical prototype testing, but there is a need for the testing of the service systems (McGoldrick & Greenland, 1994). An improved streamlining and computerisation of

'behind the scene' processes may affect the service outcome for clients without being detrimental. Such improvements of technology and the adaptation of systems can improve the cost performance of financial institutions (De Brentani, 1991). The technical production infrastructure, that is the hardware, software and delivery systems that are used in development of a new product may also provide a platform for another new service (Shostack, 1984b, in Johne & Storey, 1998).

The domination of a technical orientation in generating ideas and planning may be fatal, if manufacturing managers lose sight of market needs; this often produces technological solutions to imaginary problems (Feldman & Page, 1984). In services, firms tend to use a more arbitrary approach when designing services and they often lack the incorporation of appropriate technology. Technologically driven firms, producing technically sophisticated banking products, often place their greatest emphasis on core product attributes. The more market driven firms place a greater emphasis on the development of the surrounding support processes of a new product (Johne & Pavlidis, 1996, in Johne & Storey, 1998). The most prominent success of firms resulted from their ability to harness their high technology resources for the design of innovative new services. At the same time, an insufficient number of experts is a key limiting factor in the realisation of new service development goals. The perceptions that financial services tend to be expert services and that technology is the essence of many new services in banking and finance are clearly reflected in De Brentani's (1993) findings. He showed that an expert-driven new service development environment is an important determinant for service success, even to the extent that new services are more expert and operations driven than customer or marketing driven (De Brentani, 1993). Yet, that argument does not discount the importance of a marketing orientation influence through consistent market research.

6.6.2 Marketing Research

According to some (for example, Chase, 1978; Easingwood, 1986) services constitute intangible systems entailing close interaction with customers. Service firms tend naturally to focus on processes and operations more than do their manufacturing counterparts. Nevertheless it is well known that a strong marketing orientation, that is, understanding and responding to customer needs and involving the marketing function throughout the development process, is as important for developing successful services as it is for developing new physical products (De Brentani, 1993). An accurate understanding of a customer's buying behaviour, needs, wants, and preferences aids the formulation of a strong market orientation and thereby produces marketable products (Calantone & Cooper, 1981; Cooper, 1979b, 1980; Cooper & Kleinschmidt, 1986; De Brentani, 1989; De Brentani & Cooper, 1992; Maidique & Zirger, 1984; Zirger & Maidique, 1990). This is achievable by acquiring knowledge through the results of efficiently conducted and detailed market research (Cooper, 1979b, 1980; Cooper & Kleinschmidt, 1986, 1987a, 1993; Rubenstein, Charabarti, O'Keefer, Souder & Young, 1976). Maidique & Zirger (1984) reported that a continual, informal, in-depth contact with leading customers throughout the process was a contributor to success. However, results of an interesting study of services by Martin & Horne (1993), do not support the belief that there is a greater overall use of customer information by successful than by unsuccessful service firms. Including market research activities into the efficiency section of this research will both investigate whether this is an efficiency factor and if so, whether this factor can significantly influence a new service's performance.

According to the literature, services have not been very efficient in carrying out certain formal market research on new products. Despite the importance of market research, Lawton & Parasuraman (1980) demonstrate that formal marketing research is not undertaken with regard to over half of all product

introductions. A motive may be the lack of marketing skills (Calantone & Cooper, 1981). In financial service firms the use of 'classical' test marketing is often considered limited (Easingwood, 1986; Reidenbach & Moak, 1986; Scheuing & Johnson, 1989). In a recent study of financial services, test marketing was considered the least proficiently handled of any of the other new service development steps, and it was calculated that it would have a moderate impact on overall new service development performance it was handled better (Mohammed-Salleh & Easingwod, 1993). Without marketing information a firm relies on informal sources such as its sales force or customer complaints to indicate market need. Unfortunately the firm often has no systematic way of dealing with these sources of information (Feldman & Page, 1984). Managers of service firms do recognise the need for market tests, but dispense with them because of the high cost, because the service is a copy of a competitor's, due to the difficulty of producing test market conditions, and to the time pressures involved in beating the competition to the market (Easingwood, 1986). Investigation into the efficiency of marketing research activities is included in this study to see if they are included in the factors that describe the efficient development of new services. It will also be investigated as a possibly significant differentiating factor between successful and unsuccessful services. The propositions are outlined in section 6.6.4.

6.6.3 Launch Effort

Proficiency in launch effort necessitates clear and detailed documentation of the various activities. Details of activities associated with promotion may need to be specified regarding the correct use of advertising skills and promotion strategies, the training of personnel, the training of an efficient sales force, and the adequate internal promotion of the product to the firm's frontline staff (De Brentani, 1992). Advertising informs the customer of the availability and performance of offers, and enhances product and firm image. Personal sales effort facilitates presale, during sale; and after sale

advice and service to customers (Johne & Storey, 1998).

Expenditure on distribution is also important in launching a new service efficiently. This determines the ways in which core product attributes are made available to target markets. Distribution expenditure represents investments made to create direct links with customers, by mail or telephone, and to eradicate the need for a number of intermediaries. Many financial service firms are trying hard to develop new methods of distribution that can complement existing strengths in order to gain wider access to consumer and business markets (Ennew & Watkins, 1992). As new competitors move into established market sectors, they bring with them expertise in different distribution methods and do not feel constrained by existing corporate structures (Moriarty & Moran, 1990). Many financial services firms are finding traditional channels no longer sufficient to attract target customers (Johne & Storey, 1998).

Atuahene-Gima (1996) found that for financial and computer services in Australia the proficiency of launch activities a significant and positive effect. What was more startling was that the proficiency of launch activities was not significant in the sample of manufacturing firms. He attributed this finding to the fact that the inherent characteristics of services encourage greater inter-functional co-ordination and teamwork. Along with his finding that a non-synergistic service impacts negatively on performance, this suggests that a service which is incompatible with the marketing skills and distribution channels of the firm is likely to lead to exacerbated launching failures.

Launching at the wrong time increased the probability of failure (Cooper, 1975; Sarin & Kapur, 1990). Such failure could be lessened for future new products through the experiential learning and analysis of post-launch conditions (Cooper, 1979b; Link, 1987). In goods, it was one of the weakest qualities of the process, yet when well handled appeared to result in success

(Cooper & Kleinschmidt, 1993). Financial institutions and their computerised records are performing post-launch analyses much more efficiently than pre-launch activities (Easingwood, 1986). The proficiency of such an activity may or may not be important for success, but with inadequate availability of research in this area, post-launch analyses for services will be included in this study for the factors of 'tasks of efficiency'.

Conducting a thorough pre-commercialisation business analysis after a physical product development but prior to launch is not an activity that is often discussed in the service literature. Neither is this activity very often researched in the service literature. The proficiency of such an activity may or may not be important for success, but it will be included in the activities involved in the factors of 'tasks of efficiency'.

6.6.4 Product Planning

The findings presented by Edgett (1993) and others (Bowers, 1986; Easingwood, 1986; Scheuing & Johnson, 1989) tend to corroborate with preliminary evidence suggesting that a formal approach to the development of products is not being applied by financial institutions. Edgett's (1993) study of 104 building societies contradicts the conventional wisdom for tangible goods that the use of a formal new product development system is a contributing factor to a firm's success rate (Booz, Allen & Hamilton, 1982: Cooper, 1983,1987,1988; Cooper & Kleinschmidt, 1986). Moreover, few insurance managers provide an invigorating and envisioning innovation program (Johne, 1997). Financial institutions' up-front or predevelopment activities such as screening, market studies, market research, and technical appraisals are very weak compared with those of a typical manufacturing firm. Since so little predevelopment homework is done it is not surprising that this phase of the process has almost no impact on success or failure (De Brentani & Cooper, 1992). In Johne & Storey's (1998) summation of the new service development literature, it has been found that top performing banks

have more formalised and better structured development programmes than lesser performing banks.

A well-defined new product plan should be at the core of a company's approach (Cooper & Kleinschmidt, 1987; Lamb, Hair & McDaniel, 1994). When worthwhile, there should be a specific step-by-step game plan with all product specifications for the development of a new product (Cooper, 1990). Most products planning processes should de-emphasise the subjectivity of individuals and incorporate measures designed to maximise objectivity (Feldman & Page, 1984). The intangibility of services led the innovation to be informal or *ad hoc* in nature, which is in sharp contrast to the new product development process of goods (Easingwood, 1986; Martin & Horne, 1993).

All the areas seen by the literature to be critical for development have a number of corresponding activities. For this research, such activities (or tasks) were formed into statements that suggested proficient actions. Research participants will be asked their opinions of the degree of efficiency of each action in developing a product. It is proposed that there are a number of factors that underlie these 'tasks of efficiency'.

PROPOSITION 1B:
Specific predominant factors underlie the 'tasks of efficiency' involved in new service development of banks and insurances.

Each factor from Proposition 1B describes a group of efficient tasks. This chapter discusses how much the efficient development of successful products differs from the questionable efficient development of failed products. For each of the factors uncovered in Proposition 1B, it is assumed that the degree with which they were adopted differs between successful and failed services.

PROPOSITION 2B

The intensity of factors of 'tasks of efficiency' differs for services that are successful and those that are failures.

It has been noted that there are many reasons for success and failure. There has been notable insight from previous studies suggesting that both services and manufacturing firms need to give attention to similar factors, but with different degrees of emphasis to ensure higher innovation performance. For reasons mentioned in Chapter One, the new product development factors specific to the South African service scenario are what of interest in this study.

The subjects in this study of South African services are the financial products of banks and insurers. In order to discuss the different activities and factors for success and failure there needs to be an understanding of the nature of the industry under review. Chapter Seven will explore the sector of banks and insurers in South Africa, as well as the corresponding legislation that influences product development.

CHAPTER SEVEN: THE FINANCIAL SERVICES SECTOR OF SOUTH AFRICA –SPECIFICALLY BANKS AND INSURERS

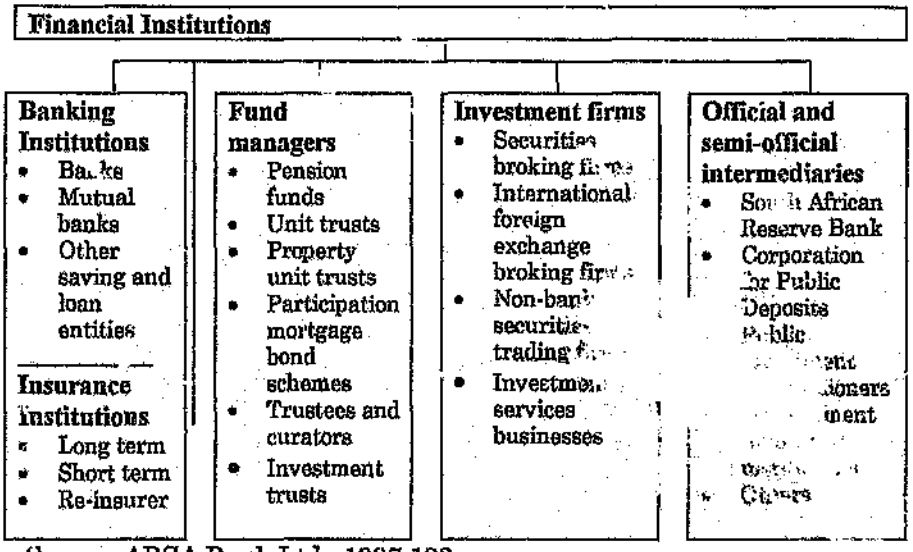
7.1 INTRODUCTION

The functional categories of South African financial institutions are succinctly summarised by Fourie, Faulkens & Kok (1996, p.52) as,

> "Central banking, banking, insurance, fund management, and securities trading. The central banks are unique in that they are the sole issuers of (primary) money; only banks create cheques (secondary) money; insurers protect their clients – at a fee – against uncertain events like fire or living too long; fund managers sell in essence a managerial service to their clients and invest clients assets at the most attractive yield (with due regard to risk); lastly security firms trade (rather than invest) for own account and/or operate as an agent".

Figure 7.1 shows the types of financial institutions.

Figure 7.1: Financial Institutions



Source: ABSA Bank Ltd., 1997:123

As this study restricts the sampling frame of the South African financial sector to banks and insurance firms' products, a brief description of each, and of their relationship, is in order. In its simplest form, banking amounts to mediation and trusteeship of other people's money. However, since 1983 the changed banking legislation (Banks Act of 1990) and other related Acts (such as the demise of the sixth schedule to the Income Tax Act in March of 1993), many deposit-taking institutions offer virtually the entire spectrum of banking services (ABSA Bank, 1992). Moreover, many banks are now offering insurance services (Falkena, Kok & Van der Merwe, 1992). Insurance is a term relating to insurers and assurance (long-term insurance) companies that comprise the second group in the sample. The rationale behind all insurance is to effect the spread of the losses of the few amongst the many (Falkena, Kok & Van der Merwe, 1992).

With regards to the deregulation (as discussed in 7.4 below) which results in increased competition and the availability of close substitutes, the behaviour of both sectors needs to be examined. This study will compare banks with insurers to see if there is any difference in the behavioural aspects of 'new service development activities' and 'tasks of efficiency'. A further reason to examine the similarity of new product development behaviour is that one cannot assume that the two sectors which make up the sample are homogeneous. Before discussing the possibility of functional overlap, a description of the characteristics of the b ıg and insurance financial systems in South Africa is necessary.

7.2 South African Banks

As stated earlier the Central Bank and other banks are an element of the South African financial institutions. The South African Reserve Bank is the central bank acting as the protector of the domestic and external value of the rand. It primarily fulfils duties that are not carried out by other banks, such as acting as the government's banker and the custodian of cash reserves; it markets the output of gold and is the primary issuer of money (Fourie, *et al.*, 1996). This bank does not offer new products to the retail section, and is therefore outside the scope of this study. Banks, on the other hand do offer new products to the retail section, and on statutory grounds of the Banks Act of 1990, are made up of general banks and mutual banks.

The currently existing 40 banks may be functionally divided into commercial, merchant, and general banks. Commercial banks are profit-seeking institutions that carry out the business of accepting deposits of money that are withdrawable by cheques, draft or order. Merchant banks' direct services primarily are to large corporate clients, they and generally include lending

money, planning and raising finance, investment advice, and portfolio management. General banks target their business mainly at individuals and small enterprises. These banks' operations entail the taking of deposits, granting of loans, and financing of hire purchase and lease transactions. Some of them offer credit card facilities which are probably arranged through the agency of a large commercial bank (Fourie, *et al.*, 1996).

It is estimated that currently 40 percent of adult South Africans have a bank account. Most of the account holders are involved in the so-called first world section of the economy (ABSA, 1997). A challenge to the South African banks is to expand the current base of products and services to include the emerging market. This market constitutes the less privileged, urbanising communities. Unfortunately, such a group may not be as interested in banking products as the banks' present clientele. With the current structure of the banks, the number and sum of deposits and loans requested are not economically feasible. Neither is the viable technology although it proved itself to be suitable elsewhere for the tasks needed by this community. To this end, Mutual banks were designed to fill the gap between the informal and the formal banking sectors. This provided the broader community with sophisticated banking facilities in addition to recognising credit unions, stokvels, savings and credit schemes that support community based activities. The Mutual Savings Act of 1993 replaced the Mutual Building Societies Act of 1965 (Storey, 1994). There are currently five Mutual banks in South Africa. These are located in Grahamstown, Louis Trichard, Sandton, Umtata and Vlaeberg (South African Reserve Bank (SARB), 1997). By the end of 1996 The Mutual Banks Act had not yet proved itself to be a successful vehicle to accommodate smaller type banking operations (Amalgamated Banks of South Africa (ABSA), 1997).

On a larger scale, South African banks and insurers have to compete in the international arena, since South Africa rejoined the international fold after years of isolation thus exposing the industry to well capitalised global banks. For instance, the TA bank from Malaysia opened i South Africa as the TA bank of South Africa Ltd. in 1997. The bank targeted the lucrative middle-market niche, offering highly competitive rates and dealing with selected clients. The bank is not limited by costly infrastructural services and as are other foreign banks operating in South Africa, it is therefore able to offer better deals in investment and loan finance (Nedcor Intelligence Monitor, 1998). Banks are experiencing pressure to find ways to grow other sources of revenue through increased cross marketing of products and services. Accordingly they need to be more innovative with regard to the products and services they offer in order to compete with foreign banks (ABSA, 1997).

As regards the current and future technological challenges facing South African banking, most if not all of the larger banking groups are well placed to meet the future demands. Standard Bank's access bond product has been copied worldwide. In South Africa the automatic teller machines network, South African Switch (SASWITCH), the Automatic Clearing Bureau and Universal Exchange Corporation (UNEXCOR) bond settlement systems between banks is world class. The support technology allows some of the banks to provide real time information to their clients (Storey, 1994). Smart card technology is advancing, and indications are that capabilities will rapidly expand in the immediate future. However, in the latest Nedcor Intelligence Monitor (1998), a four person consulting team in San Francisco have shared details of a way of breaking into the newest version of the smart card. This team has yet to encounter a card whose security measures they have not broken. Telephonic banking has reached beyond the product testing phase and is now being used in 'direct' banking (ABSA, 1997). Most of the general managers of the Information Technology (IT) divisions of the major

banking groups hold the conviction that South African banking will readily adapt to the virtual banking world (ABSA, 1997). In 1996 South Africa proceeded to embrace Internet banking. Significant growth occurred at ABSA, First National Bank (FNB), and Standard Bank in the number of dial up Internet users. ABSA has about 14 000 users, and FNB is receiving about 600 to 700 connections a month. Standard Bank states that it has an Internet customer base of over 20 000 users and expects this to double in 1999 (Nedcor Intelligence Monitor, 1998). On the technological side, South African firms face great risk on January the 1st 2000, with more than 80 percent of local businesses still not prepared for year 2000 computer 'millennium bug'. Banks are reported to be the most advanced in the Y2K preparations with a 39,4 percent state of readiness (Nedcor Intelligence Monitor, 1998). As efforts are diverted towards the Y2K problem, the frequency of newly launched products will be negatively affected (FSB, 1997).

The satisfaction of the demands of relationship banking is particularly challenging for the future of banking in the new technology driven environment. New product and service delivery will have to be effected in such a way that substantial and sustainable benefits are derived both by the banks and the customers (ABSA, 1997). The insurance sector of the market is similarly affected.

7.3 South African Insurers

The insurers' policy is to spread the losses of the few amongst the many (Falkena, Kok & Van der Merwe, 1992). Broadly, there are three types of insurers: short-term insurance, life insurance (assurance) and reinsurance. The distinction between life and short-term insurance is that the former is typically transacted over many years, while the latter may not legally exceed a period of two years. Both life and short-term insurance contracts are

currently regulated in South Africa by the Insurance Act No 27 of 1943. Of the 123 insurers registered on the 30th June 1997, 51 were registered for long-term business only, 66 for short-term business and only six for both long- and short-term business (FSB, 1997).

Short-term contracts cover misfortunes such as fire and accident, house-owners, householders/all risks, personal accident, public liability, marine and aviation, and motor car insurance (Fourie, *et al.*, 1994). Fire policies cover many types of property and their contents, machinery and contract works against weather risks such as fire and storm as well as other weather-related causes. Accident insurance is intended to cover a variety of possible losses such as burglary, theft of money and accidental loss of valuable property. There are many such policies, but they all share the principle that the cause of loss should be accidental and unforeseen. The ownership and use of motor vehicles has resulted in the development of a specialised branch of accident insurance to underwrite the many risks associated with the use and ownership of motor vehicles. As the legal system has progressed, the risk of being held liable for negligent acts resulting in damage to others led to the development of liability insurance policies. The provision of surety for certain contracts is also possible for insurers. The insurer provides a guarantee for specific performance by the client under another contract. Should the insured person default under the contract, the insurer will pay any damages that may result from the default. Worker's compensation insurance is intended to compensate workers who are injured during the performance of their job. The government provides this insurance under legislation (Sandrock, 1996). Short-term insurance is concerned primarily with risk assessment, while long-term insurance is concerned with investment results and risk assessment (Fourie, *et al.*, 1996).

Long-term contracts of an indefinite period cover misfortunes in matters of life, health (such as disability funds), business, funeral and debts (in other words they constitute a sinking fund). Life insurance policies represent contractual savings and are one of the four main ways in which savers accumulate capital over the long term (the others being unit trusts, pensions, and home mortgages) (Fourie, *et al.*, 1996). The swing has been away from predominantly risk-related products to predominantly investment products. This trend is fuelled by retirement schemes providing substantial group life cover, enabling people to opt for investment products (Sandrock, 1996).

"Reinsurance is to insure oneself again, especially in the case where an insurer secures itself by transferring some or all of the risk to another insurer" (Oxford Dictionary, 1990). Reinsurance is therefore an important means of limiting the possible losses for an insurer. By entering into appropriate reinsurance arrangements, an insurer can provide far more cover that it could possibly bear from its own resources (Sandrock, 1996). These reinsurers are not included in the sample as their products are not within the scope of this study.

A number of competitive and environmental issues affect the types of new products and the ways that these are developed in the insurance industry. As was noted with banks that wish to expand, insurers will have to focus on under-developed or under-served markets (Financial Services Board (FSB), 1998). Companies need to identify new market niches and opportunities to differentiate their service offerings to these markets (FSB, 1998).

Environmental and legal trends affect the development and composition of new products. Investors are benefiting from the new regulatory framework for the marketing of financial products (FSB, 1997). Investors demand for

disclosure is soon to be met. To begin to comply with the request for disclosure, all members of the Life Officers Association (LOA) have introduced a cooling off period of 21 days after investors have signed a new contract.

Another environmental influence that has and will continue to have an effect on development is Auto Immune Deficiency Syndrome (AIDS). With the risk pattern of AIDS becoming better known and more predictable, life officers have begun to refocus attention on life and disability protection products, which have yet to be offered by banks and unit trusts. Some life officers aim to counteract the effects of AIDS by introducing policies requiring Human Immunodeficiency Virus (HIV) testing every five years up to the age of 45 or 50 (Fourie, *et al.*, 1996; Munro & Snyman, 1995).

The portfolios of products that are offered are changing with the trend for life officers to manage assets on behalf of investment clients and unit trusts. This has lead to a greater emphasis on investment performance as a means of comparing life firms, rather than premium rates and other success factors (Fourie, *et al.*, 1996). Another driving force in the industry is the introduction of unit trust linked annuities. This product offered investors the ability to participate more flexibly in unit trust portfolios, some of which have historically outperformed the life industry's portfolios (Munro & Snyman, 1995).

Other products are being developed to cope with the current situation of government health provision, there is a need for cover for death or permanent disability, as well as cover for daily care in hospital and major surgery, income replacement and nursing (Fourie, *et al.*, 1996).

An overriding trend towards custom-made solutions is surfacing, whereas standardised products are losing importance in the long-term sector. This trend is largely due to bigger and more complex risks, which arise as the globalisation of markets proceeds. Corporate clients, in particular, seek risk management solutions that go far beyond the traditional borders of insurability. In order to be able to absorb and to handle larger insurance risks, insurers, reinsurers and brokers are forming bigger entities. But this process of consolidation is only part of the answer. The other, and probably the more important one, is the development of 'Alternative Risk Transfer' techniques with the sourcing of capital markets as financial absorbers (FSB, 1998).

Predictions indicate that the short-term insurance industry will show only a moderate growth over the next few years due to the increase of foreign competition, lower inflation and in the South African market. This will force the South African insurers to manage costs carefully, to increase efficiency of information and distribution systems and use more sophisticated risk assessment procedures for any new products (FSB, 1997).

7.4 Narrowing Of Bank And Insurer Legislation

Falkena (1994) believes that under the pressure of competition, globalisation and deregulation, the financial services industry is restructuring progressively towards conglomerate multi-purpose firms. Thus new product development will continue unabated and financial firms will continue to use their customer database to cross-sell other products (Storey, 1994).

The trend towards multi-purpose firms is increasingly eroding the traditional distinctions between the major areas of finance: banking, insurance, fund management, and securities trading (Falkena, 1994). Banks are almost

uniquely placed to offer the increasing number of diverse products that comprehensive fi ncial solutions require. They offer products as diverse as risk management and investment avenues. Although the Insurance Act 27 of 1943 does not explicitly prevent a bank from obtaining a licence to act as an insurer, both the Registrar of Banks and the Registrar of Insurers agree that this practice is not in the est interests of either industry. However, banks and insurers have each been permitted to control the other (Jacobs, 1990). This is seen as a way of levelling the playing fields without necessitating the holding of both licences. This has resulted in a trend known as 'bancassurance'. Within this scenario, a bank develops an alliance with an insurer. The big South African banking groups such as ABSA, Standard, First National and Nedcor are in this category. Bancassurance enables banks to market insurers' products, while insurers obtain a new delivery system for their products (Storey, 1994). It is also expected that with the changes in legislation, other innovative distribution channels will be developed, for example Shoprite/Checkers with Old Mutual (FSB, 1998).

Banks made use of Section 4(3) of the Pension Funds Act 24 of 1956 which permits banks, insurance firms and others to set up and administer pension funds for gain, as long as these funds are in the public best interest. Also, the fund management work may be sub-contracted. With few statutory barriers to entry, this market has become an area for intense competition between banks, portfolio managers, life companies and unit trust companies (Storey, 1994).

Of further potential encouragement for the development of multi-purpose products by banks and insurers, is new proposal that was recently submitted by the regulatory authorities of South Africa. New legislation is proposed by way of the Investment Services Act (ISA) which will be 'umbrella legislation' in the sense that it encompasses and takes precedence over all existing

legislation and is thus applicable to all financial participants. However, certain activities of firms may be excluded from the ISA because although they fall within the definition of investment business, they are not the kind of activities which the Act intends to regulate (Falkena, 1994). Such an Act could obviate the necessity for Bancassurance. It is questionable whether banks and insurance firms could develop new insurance products with the same degree of proficiency and success as the original insurance firms and vice versa. There was a need for two separate Bills, one for life and one for non-life business. Although this appears to be a move in the opposite direction from worldwide trends that are increasingly blurring financial services and products, the Financial Services Board has recognised the unique risks associated with the industry. Each these industries requires its own legislation and supervisory base (FSB, 1998). This debate contributes to the formulation of Propositions 3A and 3B in Section 7.5 below.

7.5 Differences Between Banks' and Insurers' Products

In the service literature it is evident that some authors classify banks' and insurers' offerings as pure services (Lovelock, 1991; Zeithaml, 1981), while others classify insurance companies as 'pure services that are low on goods', and banks as services with 'some goods or delivered through goods' (Van der Merwe & Chadwick, 1989). As this study investigates the development activities of services, the difference in the 'low' presence of goods in the offering may have an influence on the development process and the resultant success factors. Therefore, banks and insurers cannot be considered to be a homogeneous group, nor can it be assumed that they will follow the same new service development activities. Such contrasting beliefs among service researchers contribute to formulating Propositions 3A and 3B below.

PROPOSITION 3A:

There is a difference in the intensity of each factor of 'new service development activities' between banks and insurers.

PROPOSITION 3B:

There is a difference in the intensity of each factor of 'tasks of efficiency' between banks and insurers.

CHAPTER 8: METHODOLOGY

8.1 OBJECTIVES OF STUDY

Activities which make up the new service development process are those which describe the conduct of planning, technical orientation, eagerness to conduct and execute market research, and launch efforts. For this study, these new service development activities have been termed 'new service development activities'. 'Tasks of efficiency', are activities which originate from the same literature, but deal with how well each development activity has been executed.

After first deriving factors from the list of 'new service development activities' that make up the process of developing new financial products, this study next explores the factors that are critical for success and failure. Similarly, it is an objective is to derive 'tasks of efficiency' factors from the list of activities, and also establish which factors are critical for success and failure towards proficiently developing banks' and insurers' products.

The last objective is to find out if the two types of financial firms, banks and insurers, are not significantly different. This allows results to be generalised to both types of firms. The general problem statement for this study can be written as follows:

Problem Question:
What are the success and failure factors in the 'new service development activities' and 'tasks of efficiency' for new services? Do banks' and insurers' services differ on these factors?

8.2 PROPOSITIONS

A number of propositions have been developed from the literature in accordance with the problem statement:

1A Specific predominant factors underlie the 'new service development activities' of banks and insurers.

1B Specific predominant factors underlie the 'tasks of efficiency' involved in new service development of banks and insurers.

2A The intensity of factors of 'new service development activities' differs for services that are successful and those that are failures.

2B The intensity of factors of 'tasks of efficiency' differs for services that are successful and those that are failures.

3A There is a difference in the intensity of each factor of 'new service development activities' between banks and insurers.

3B There is a difference in the intensity of each factor of 'tasks of efficiency' between banks and insurers.

8.3 POPULATION AND SAMPLE

An important issue in this type of study of product development is that the dividing line between goods and services is ill defined in many industries and firms. The problem is exacerbated by the increasing tendency of many firms to bundle services with goods (Shostack, 1977). In an attempt to examine only services, the sample of firms that introduce new services needs to be nearer to the 'pure' end of the service/goods continuum. Such a sample of firms would include the financial institutions: banking, insurance, fund managers, and investment firms (ABSA, 1997). For this study banks' and insurers' successful and failed products made up the financial sample.

A census was taken of the complete population of South African firms registered in 1997 by the South African Reserve Bank (40 entities) and the Life Officer's Association of South African Insurers (85 entities). This

suggests that any firms not based in South Africa, such as the Zimbabwe Bank, were excluded from the sample, as they were not relevant to the domain of the study. The sampling elements of new product development managers (in each sampling unit of banks and insurers firms) were surveyed. Each was asked to complete two similar questionnaires, one for successful and one for a failed service, resulting in a 250 possible returns. During October and November of 1997, the product managers were contacted telephonically to ask for their participation before sending out the confidential questionnaires. To weight the sample towards the firms that offer more new products and/or have a larger portion of the market, more than one new product development manager was requested to co-operate. This resulted in a total of 292 questionnaires being sent out. Completed questionnaires were collected or received from December 1997 to February of 1998.

A number of requirements were stipulated with regard to a product for its inclusion into the sample of new services. The requirements were that the product was perceived to be a definite success and the second product a definite failure. For each questionnaire the respondents were to keep the development of this one product in mind and not discuss the general new service development process of the firm. The product must have been launched within the past three years, since a longer period might result in incomparable data due to respondent forgetfulness and incomparability of financial information (Calantone & Di Benedetto, 1990; Cooper & Kleinschmidt, 1987a,c; Olson, Walker & Ruekert, 1995). Respondents were encouraged to avoid choosing a new product that was considered to be a straightforward 'me-too' product. For the purposes of the questionnaire and to adhere to the study's objectives, more than half of the product needed to have been developed and/or adapted by South African expertise.

8.4 FIELD RESEARCH

To test the above propositions, a multiphase research approach was used. Firstly, a pilot study was conducted to finalise and adapt the questionnaire to the South African market. Secondly, two questionnaires were mailed or hand delivered to new product development managers in each bank and insurance firm. Lastly, after the results were received and analysed, a semi-structured interview with a total of six of the sample's managers was performed. This aided the interpretation of results.

8.4.1 Pilot Study:

Since there is an absence so far of a significant body of empirical work in this area of service development (Atuahene-Gima, 1996) and especially regarding the situation in South African, a pilot study was conducted. A pilot study increases the probability of ensuring that the questionnaire covers all the relevant areas (Malhotra, 1996). Besides pre-testing the questionnaire, the surrounding discussion also ensures that the questionnaire covers most of what practitioners, not just academics, perceive to be relevant areas in the development process of new services (Malhotra, 1996).

The researcher conducted interviews with a non-random, convenience sample of ten new product development managers. This was to establish the South African respondents' understanding of product success, to provide comments on the draft questionnaire, and to clarify vague, inapplicable or confusing statements. The pilot study elicited any activities perceived as important for development that had not been included in the questionnaire; and for the interviewees to classify the most frequently developed type of new service. By taking these suggestions into account it was expected that the response rate would increase (Malhotra, 1996).

8.4.2 Main Study:

To determine the factors that describe the 'new service development activities' and 'tasks of efficiency', a comprehensive list was derived from both the services and goods/services development literature (such as Atuahene-Gima, 1996; De Brentani, 1993; Cowell, 1984; Dwyer & Mellor, 1991; Edgett & Jones, 1991). Taking into account the literature and the results of the pilot study, a four-page questionnaire was developed. Standard accepted techniques were used to design the questionnaire.

8.4.2.1 Instrument

The questionnaire consisted of four sections. The first section gathered information about seventeen descriptive attributes of the firm and a particular service. Interviewees were required to classify the new product within the parameters of choice of market, related or unrelated technology, and whether development was in South Africa or acquired from elsewhere. This classification was to standardise the services investigated. Some of the questions asked related to the characteristics of the firm, such as how the product was developed, frequency of launch of new products, number of full time employees, and an estimate of direct competitive brands.

In the second section, on the performance measurements, participants were asked for a rating of a product's overall degree of success or failure, as well as being asked to make a further seven specific performance evaluations. For a broader identification of the overall performance classification, two different questionnaires were completed by the manager. The one investigated the properties of a service perceived by the manager to be a success, and the other investigated one perceived to be an overall failure. An estimate of the market share of the new product three years after launch was the first of seven specific measurements asked. In this question respondents chose between seven categories, each with a set range of market share percentages. The other six performance measurements were ratings of sales growth, sales objectives, profit

objectives, opportunities for cost efficiency, improved sales of other products, and the degree to which the new product opened up other new markets. These were rated on a one to five scale from 'low degree of success' to 'high degree of success'. On this scale there was also a sixth option available in case the performance measurement was "not used" by the firm.

In the third section of the questionnaire, respondents indicated on a Likert scale by how much they agreed with the 31 statements. Each statement referred to some new service development activity mentioned in the literature. Examples of such activities are 'All the necessary disciplines co-operated from idea generation until launch' and 'This new product is not close the main business expertise of the firm'.

Lastly, the twenty-one 'tasks of efficiency' statements were rated on a one to five scale from 'none' to 'complete' degree of agreement as to how efficient they had been. There was a sixth alternative of 'not used' for those activities the firm had not carried out in their development process, for example in response to the question 'Managers did a good job of marketing the new product to front line staff' if managers had attempted to promote the new product internally but had not been very efficient at it. Alternatively, the respondent could have indicated 'not used' if the manager had not tried to promote the product internally at all.

The final design of the two questionnaires was very similar, with the only difference being in the question: 'This new product had been on the market from _____to _____'. In the success questionnaire this was stated: 'This new product has been on the market since 19_____'. Otherwise instructions for the questions differed only by the use of the words 'successful product' or 'failed product'.

8.4.3 Post Analysis Interviews:

After the analysis of the completed questionnaires, six managers (three from insurers and three from banks) were interviewed. Each face-to-face

interview lasted, on average, one and a half hours. This was to allow the researcher to probe in order to clarify the results.

8.5 DATA ANALYSIS

Responses were analysed with the software programme Statistica, using factor analysis and Mann-Whitney U tests. Factor analysis was used to discover patterns among the variations in the values of several activities. "This is done essentially through the generation of artificial dimensions (factors) that correlate highly with several of the real variables that are independent of one another" (Babbie, 1992, p.444). Factor analysis was performed to reduce both the set of 30 new service development activities and the set of 21 task of efficiency statements into success and failure factors (see proposition 1A, of Section 4.3 and 1B, of Section 6.6). During the analysis the factor loadings and scores were recalculated in the rotated space, and the Varimax Technique applied to perform the rotation to reach a full set of factors as advised by Dillon, Madden & Firtle (1990). Only those with an Eigen value of more than one were retained, and with the use of a scree-plot the final factors for each set were obtained.

To determine the intensity of each factor between successful and failed services (proposition 2A, of Section 6.5 and 2B, of Section 6.6), the factor scores for the respondents on the new service development activities and tasks of efficiency were examined. A Mann-Whitney U test of the ranking scores of all respondents revealed any significant difference between successful and failed products.

In order to detect possible differences in behaviour between banks and insurers (proposition 3A and 3B, of Section 7.5) in the development process, the success and failure questionnaires were evaluated together. Rank scores were extracted for each respondent, and the Mann-Whitney U tests determined if there was any significant difference for the two within the new service development activities and tasks of efficiency chosen. All significant levels were determined at an alpha level of 0.05, as

considered by Malhotra (1996) as appropriate.

Cronbach's alpha measures the reliability of the questionnaire when analysing the set of factors. The questionnaire's new product development activities and tasks of efficiency include several sets of items designed to measure different aspects of product development. These dimensions are somewhat independent and a measure of internal consistency computed across dimensions might be lower than within the dimensions themselves. However if several items are used to measure each dimension, internal consistency reliability can be computed. Cronbach's alpha varies from zero to one and a value of 0.6 or less generally indicates unsatisfactory consistency reliability. An important property of Cronbach's coefficient alpha is that its value tends to increase with an increase in the number of scale items (Malhotra, 1996).

Beyond the pilot study it was considered necessary to check the convergent validity of the type of questionnaire (success and failed) with and the other performance measures. In other words, in success questionnaires the actual performance reported needed to collaborate. The measurements used to validate the product's performance were: the sales growth, sales objectives, profit objectives, opportunities for cost efficiency, improved sales of other products, and the degree to which the new product opened up other new markets. A step-wise discriminant function analysis revealed which performance measures were the best at predicting the product's outcome. An error classification matrix disclosed the accuracy with which the predicted success (according to the success questionnaire) matched the observed success of the product (according to the six performance measurements) and vice-versa. There was one other performance measurement of market share gained by the new product. A Kolmogorov-Smirnov non-parametric test showed whether a failed and a successful product were different in their distribution of market share gained.

CHAPTER 9: RESULTS

9.1 RESPONDENTS' CHARACTERISTICS

In order to fulfil the objectives of the study, a total of 292 questionnaires were sent out to the new product development managers of banks and insurers. The objectives were to identify factors that differentiated between successful and failed products with regard to the fulfilment and efficiency of new service development activities. It was also necessary to evaluate any difference found in development factors between banks and insurers within the sample. In total, after a telephonic reminder, 72 percent of banking and 96 percent of insurance experts responded, but they did not each return both questionnaires. Of the total questionnaires sent out, a useabl , sample of 43 percent was returned. Altogether the banking managers returned 35 percent of the successful questionnaires and 37 percent of the failure questionnaires. Insurer managers returned 65 percent of the successful and 63 percent of the failed questionnaires. The rest of the questionnaires returned were incomplete but were often accompanied by an explanatory note or telephone call.

The reasons given for not completing questionnaires were varied. Some respondents believed that for their firm it was legislation that determined the service offered, and not a new service development process. Others explained that the firm's resources were too small to spend on innovation, and they would rather continuously offer the same products. It was mentioned by some small firms that rather than develop new products they would only copy competitors' successful offerings. A number of banks and insurers could not complete the questionnaire because the firm or the firm's product development section was new and had not yet experienced launching a new product. In a number of cases the functioning of the firm was

inappropriate for the demands of the questionnaire. They did not develop new products, as it is policy for the clients to approach and customise a standard policy with the experts (such as merchant banks and reinsurers). Unfortunately some qualified respondents chosen in the different banking divisions passed their questionnaires onto the one titled 'new product development manager', hence reducing the participant number. Further reasons were that a new product development manager was too inexperienced to answer questionnaire; 17 questionnaires were mislaid in the office or by the postal system; other respondents had left the firm, or were too busy to fill in the questionnaires. Table 9.1 lists the number of banks and the insurers that returned useable questionnaires. In some cases more than one response was received from different divisions of the same institution. These responses were eligible for the study as different divisions develop different products.

Of the useable questionnaires, Table 9.1 summarises the descriptive data regarding the demographics and characteristics of the sample and new service offerings. Insurers make up 64 percent of the sample and represent about two thirds of the successful and failed service responses. A greater proportion of smaller firms were found to be insurers. Interestingly, where 24 percent of banks are large firms (that is with more than 20 000 employees), insurers have no firms as large as this.

A service offered by banks and insurers may be developed in a number of ways. A service concept and hardware may be acquired in a completed and 'ready to use' form direct from a third party, and sold as it is. On the other end of the innovation continuum, the product may be developed in-house from beginning to end. Most, however, are developed somewhere along this innovation continuum. Over two-thirds of the financial institutions preferred to develop the service in-house, while none acquired a product from

international companies and launched without change. In interviews with new service development managers, many described how an idea would be sourced from other countries, but the processes and finer details were developed in-house. Of those who fully or partly developed a service, a large number claimed to further the development of the service idea from a combination of a new service development task force and/or head office and/or small business units. Few relied on the development capabilities of the regional offices. About half of the sample considered their rate of frequency of launch of new products to be average, with relatively more insurers believing that they were above the industry average.

Table 9.1: Description of firm and product characteristics

SUBJECT	BANKS		INSURERS	
	No.	%	No.	%
Number of respondents	45	36	81	64
Number of successful services in sample	26	35	49	65
Number of failed services in sample	19	37	32	63
Size of firms: * 1-500 employees full time in South Africa	19	42	39	48
501-5000	12	27	30	37
5002 -20 000	2	4	12	15
20 001 and over	11	24	0	0
Acquisition of product: *				
Develop service in-house from beginning	31	69	54	67
Acquire it from a SA R&D group/competitor	7	16	16	20
Acquire it from abroad and then develop further	5	11	9	11
Acquire it from overseas and launched as is	0	0	0	0
New product developed for :				
(may have ticked more than one alternative)				
Whole company by a NPD task force	21	47	48	59
Partly from respective small business units	17	37	38	47
Partly from regional offices	4	9	18	22
Partly from head office	21	47	33	41
Other	5	11	13	16
Compared to the rest of the industry, rate of frequency of launch:				
Below industry average	16	36	17	21
Average	22	49	43	53
Above industry average	7	15	21	26
This service may be described as:				
(may have ticked more than one alternative)				
A "me-too" product	10	22	17	21
Adaptive or revision improvement	12	27	20	25
Product improvement	6	13	23	28
New line extension to supplement established lines	15	33	20	25
New to firm line extension	7	15	18	22
Real invention	8	18	12	15

* Only partial data received (Figures were rounded)

9.2 VALIDITY OF PERFORMANCE MEASUREMENTS

In checking whether the success questionnaire is representative of a product that performed successfully, a step-wise discriminant function analysis was carried out (Appendix E). This resulted in two of the six measures proving to be significant indicators of the degree of new product development performance. The first measurement was sales growth (p=0.000) which was defined as 'the degree of rand sales relative to the firm's other recent new product introductions in the last three years'. The second measurement profit objectives (p=0.025) was defined as the extent to which profits exceeded profit objectives'. On the Error Classification Matrix in Table 9.4, it can be seen that these two performance measures are 88 percent correct in classifying a success where a successful product was observed, and approximately 90 percent correct in classifying the observation of failure. The reduced sample of 104 from 126 was due to incomplete responses and therefore excluded from the analysis.

Table 9.2 Error Classification Matrix of performance measures

Type of questionnaire / Measured performance	Percent Correct	Success	Failure
Observed Success	88.3%	53	7
Observed Failure	90.9%	4	40
Total	89.4%	57	47

An analysis of the difference between successful and failed market share gained from a new product was not possible. More than three-quarters of the respondents had not answered the question. The results for this question were therefore discarded.

9.3 Results of Factor Analysis

Of the factor analysis performed on the lists of new service development activities and tasks of efficiency, only success factors were found. There were eight factors which statistically summarised all the development activities, four of which were critical for creating a successful performance. Factors that were critical for distinguishing a failed product did not emerge. Although all the success factors were factors that differentiated between the successful and failed products, the scores for the difference between the two were in a positive 'successful' direction.

9.4 Factor Analysis of 'New Service Development Activities'

Proposition 1A states that 'Specific predominant factors underlie the new service development activities of banks and insurers'. Factor analysis on the 31 variables of these new service development activities, resulted in the emergence of four independent, multi-attribute new service development factors, accounting for 47 percent of the variance. Scores for the five questions that were negatively worded were reverted to match the positively worded questions (these questions are marked with an asterix in Table 9.3). Unanswered questions were treated by pairwise deletion of the responses so that the factor analysis could be performed (as advise by Malhotra, 1996). The resultant factors were examined, and according to standard practice, the factor analysis was rerun with only the items that loaded a greater than 0.4 factor score. Only five items were deleted from the initial factor analysis. The resultant factors and their respective factor scores are listed in Table 9.3. All the factors in Table 9.3 are considered to be reliable, as the Cronbach's alpha measured 0.664, which is in excess of the minimum value of 0.6, suggested by Malhotra (1996).

Table 9.3 Factors for new product development activities for banks and insurers

Factor 1: Adequate skills and resources	Loading	Factor 3: Degree of service newness	Loading
• Production technology skills were more than adequate.....	0.7695	• It took time before customers could understand the benefits of the new product.....	-08002
• Distribution resources were more than adequate.....	0.7237	• New product requires a major learning effort by customers...	-0.7991
• Advertising and promotion skills were more than adequate	0.7063	• New product demands little change in behaviour.....	0.7450
• R&D skills were more than adequate.....	0.6962	• The nature of the production process was not totally new to the firm*	-0.4335
• Market research skills were more than adequate.....	0.6921	• This new product is more radical with respect to world technology than competitors.....	-0.4152
• Financial resources were more than adequate.....	0.5083		
• Managers have a long term commitment to developing new products.....	0.4563		
• Our sales force skills and resources were more than compatible for this product.....	0.4285		
• The distribution channel was totally new	-0.4558		
• The technology required to develop this product was totally new for us.....	-0.5324		
Factor 2: Product advantage		**Factor 4: Cross-functional integration**	
• Product higher quality than competitors.....	0.6216	• No trust between marketing and technical people *.....	0.7578
• Offered customers a better image...	0.6182	• Divisions struggles to co-operate*	0.7277
• High performance compared to price asked	0.6128	• Management provides environment for easy inter-departmental communication..	0.5745
• Customers had input through most of the development process.....	0.4632	• Management has a long term commitment to developing new products.....	0.4420
• Company experts play an important role in delivering the product.....	0.4502		
• Innovation is more radical with respect to world technology than competing services.....	0.4480		
• Did not fit in well with image of firm *.....	0.4397		
• Type of promotion required was new to the firm	0.4071		

*This statement's raw score was reversed. The new loading is listed, but the original statement appears. Therefore the statement be read conversely.

9.4.1 Description of factors for 'new service development activities'

In uncovering the predominant factors that underlie the new service development activities the results of the four factors were found: adequate skills and resources, product advantage, degree of service newness, and cross-functional integration. These are presented below.

- Factor 1: Adequate Skills and Resources

The presence of this factor shows that these skills and availability of resources form part of the service development process for banks and insurers in South Africa. This factor alone constituted approximately 21 percent of the total variance. To improve the likelihood of a new service offering, there needs to be more than financial strength (factor loading 0.50). There is a requisite for the new product to currently exploit in-house skills and existing resources in marketing, R&D, production, distribution and launching. Marketing skills needed to develop new products include market research (factor loading 0.69), advertising and promotion abilities (factor loading 0.70) and, to a lesser extent, the resources and compatibility of the sales force (factor loading 0.42). The demand for adequate resources and skills from the production department (factor loading 0.76) may not require the technology to be radically new (factor loading 0.45) in order to satisfy consumers demand for develop new products. A further adequate supply of skills and resources required for development is from R&D (factor loading 0.69). It is also strongly evident that distribution resources are made available (factor loading 0.72), and of lesser importance that new products are released through distribution channels (factor loading 0.45) that are not considered totally new. Included in this factor is the presence of managers with a long-term commitment to providing the necessary resources and skills to the new product development process (factor loading 0.45).

- Factor 2: Product Advantage

This factor describes how South African banks and insurers are developing new services to gain a competitive product advantage. The factor constituted of approximately 13 percent of the total variance. Product advantage is the extent to which the new service is differentiated from competitors' offerings. Such an advantage may be revealed in the higher quality offered to customers (factor loading 0.62) or high performance delivered for the price asked (factor loading 0.61). The expertise of the personnel contributes significantly in the delivery of financial services to their customers (factor loading 0.45). The advantages mentioned in this factor are mainly due to perceptual influences, for example the 'use of the new service may afford customers a better image' (factor loading 0.61). Any product that fits in well with the existing favourable image of the firm is an advantage to the firm (factor loading 0.43). This product advantage is also partly due to the input of customers during the development process (factor loading 0.46). Customer input is also necessary to decide which type of promotion methods was needed (factor loading 0.40). Even though perceptions play a major role in the development process of new services, there is still an emphasis on the support of radical technology innovation (factor loading 0.44) which helps to create a product advantage.

- Factor 3: Degree of Service Newness

Service newness is the degree to which the new service varies from current customer consumption requirements and experiences. This affects the degree of learning and adoption effort required by the customer (Atuahene-Gima, 1996). The products developed by the South African banks and insurers demand little change in behaviour from consumers (factor loading 0.74). The other four statements that load onto this factor are negative, which implies that the reverse of the statement is true: Consumers did not take a long time before they could understand the new product (factor loading 0.80). Neither

did the new product require a major effort to learn (factor loading 0.79). This factor shows that the degree of service newness for the firm is not 'too' new. In inverting the following two statements it can be seen that the 'nature of the production process was not totally new' (factor loading 0.43) and that the 'innovation was not more radical with respect to world technology than competitors' (factor loading 0.41). This factor constituted 7.2 percent of the total variance of the factor analysis.

- Factor 4: Cross-functional integration

Although this factor constituted only approximately 6.5 percent of the total factor variance, it showed the existence of collaboration amongst functional divisions within South African firms. As with the adequate skills and resources, managers have a long-term commitment (factor loading 0.44) to provide an environment that is conducive for interdepartmental communication (factor loading 0.44). There is a strong suggestion that marketing and technical people trust each other with information and plans (factor loading 0.75). This also explains why South African firms do not struggle to co-operate when fulfilling new product development objectives (factor loading 0.72). As is standard practice, the raw scores of the negatively worded statements (marked with an asterix) were reversed before the factor analysis took place. This was done so that the results would be comparable.

9.5 FACTOR ANALYSIS OF 'TASKS OF EFFICIENCY'

The second factor analysis was undertaken to verify Proposition 2B, 'Specific predominant factors underlie the tasks of efficiency involved in new service development of banks and insurers'. This was performed on the responses for the 21 tasks of efficiency. Raw score responses that were changed to a positive form before the analysis took place, are highlighted with an asterix in Table 9.3. Respondents who left any statement blank or whose company

did not perform a specific activity (as indicated by checking the 'not used' alternative) were deleted as missing data by pairwise deletion (Malhotra, 1996). Only one question was deleted from the initial factor analysis. After rerunning the initial factor analysis with only those items that loaded 0.4 or more, the analysis revealed a four-factor solution. These four factors explained 55 percent of the total factor variance. The reliability measure of Cronbach's alpha for the internal consistency of all the loaded items in each factor came to 0.8445. This is well above the minimum reliability for the Cronbach's alpha level of 0.6 (as suggested by Malhotra, 1996). The activities which make up the factors with their respective loadings for Proposition 2B are detailed in Table 9.4. These are activities that describe the efficient manner in which new product development activities were performed.

Table 9.4: Factors for tasks of efficiency activities for banks and insurers.

Factor 1: Formalised Plans	Loading	Factor 3: Detailed prediction studies	Loading
• Step by step game plan drawn up in beginning.....	0.8118	• We did not consider it necessary to conduct a specific and detailed study to predict post launch conditions *.....	0.7085
• New product charter between departments.....	0.7765	• No pilot test with consumers*.....	0.6300
• We have no need for formal plans – ad hoc sufficient *.....	0.7042	• Project could not be tried on a small scale – it would have required major investment	-0.5999
• Objectives and plans formalised in writing	0.6811	• Conducted a thorough pre-commercialisation business analysis prior to full scale launch.....	0.4544
• Conducted a thorough pre-commercialisation business analysis prior to full scale launch.	0.4898	• Carried out a detailed formal study of the market on a consistent basis.....	0.4271
• Conducted a detailed financial analysis to determine financial viability of project.....	0.4518		
• First review of the project was idea screening	0.4464		
Factor 2: Consumer insight		**Factor 4: Precision**	
• Advertising and promotion very well targeted at right customers...	0.7518	• Product specifications (exactly what the product should be), were very clear from the beginning	0.7533
• Management did a good job of marketing NSD to front line staff.	0.6771	• A clear product definition was prepared early in the process.....	0.7228
• Post launch assessment very accurate.....	0.6567	• Our production facilities were geared up and ready to work smoothly for the launch.....	0.5865
• Adequate preliminary assessment of market for the idea before development.....	0.5551	• Technical aspects were not very clear from the beginning *.....	0.5821
• We knew customers' buying behaviour.....	0.5395	• First review was a screening of idea	0.5225
• Carried out a detailed formal study of the market on a consistent basis.....	0 5296	• Objectives and plans formalised in writing.....	0.4376
• Conducted a detailed financial analysis to determine financial viability of project.....	0.4581	• We knew customers' buying behaviour.....	0.4037
• Conducted a thorough pre-commercialisation business analysis prior to full scale launch.	0.4046		

* This statement's raw score was reversed. The new loading is listed, but the original statement appears. Therefore statement should be read conversely.

9.5.1 Description of factors for 'tasks of efficiency'

- Factor 1: Formalised Plans

This factor indicates that detailed formalised planning occurs in South African banks and insurers. The belief that *ad hoc* plans were sufficient for financial innovation was strongly opposed (factor loading 0.74). Efficiency in procedures of planning and market analyses are very important in new product development, as this factor is approximately 31 percent of the total variance. Plans and objectives were formalised in writing (factor loading 0.68) and included in corporate strategic plans. Besides a step-by-step game plan of how the new service development would take place (factor loading 0.81), a charter for co-operation was drawn up between the different departments (factor loading 0.77). Assessment of the project formed part of the preparation of plans. Assessment was carried out specifically on the financial viability (factor loading 0.45) and commercialisation (factor loading 0.48) impact of the new product to the firm. Conventionally, the first screening (factor loading 0.44) to take place within the development process was of the idea. This is efficient in that it is the least expensive phase in which to withdraw the new project.

- Factor 2: Consumer Insight

South African financial institutions are completing proficiently activities that give a greater insight into consistently (factor loading 0.52,) understanding the consumer's behaviour (factor loading 0.53) and assessing up-front if it is suitable for development (0.55). Pre-selling a new service to front-line personnel who have contact with potential clients (factor loading 0.67) and correctly targeting the advertisements and promotion (factor loading 0.75), play a key role in gaining market acceptance. Accurate post launch evaluation is not forgotten (factor loading 0.65), and highlighted the efficiency of evaluating the new products. Of lesser importance in this factor

were the evaluation activities of a pre-commercial analysis (factor loading 0.40) and financial analysis (factor loading 0.45) of their consumers' financial potential.

- Factor 3: Detailed prediction studies

Most institutions considered it necessary to be efficient, and to conduct detailed studies to predict post launch conditions (factor loading 0.70). This was aided by a pilot test of the new service (factor loading 0.63). For some it would not have required a major investment (factor loading 0.59) to pilot the new service on a small scale. A thorough pre-commercialisation business analysis (factor loading 0.45) formed part of the formal and consistent inquiry into their target market's potential (factor loading 0.42).

- Factor 4: Precision

This precision factor described the efficiency and accuracy with which certain activities need to be undertaken so as to develop clearly those ideas that were not screened out as unworthy (factor loading 0.52). The process includes not only a clear product definition (factor loading 0.72) but also to understand from the beginning the specifications (factor loading 0.75) of exactly where the product should be launched, who constituted the target market (factor loading 0.40), and all the technical aspects of the new venture (factor loading 0.58). Precision was not only required for the predevelopment activities of the process but also for post-development activities. Such post-development activities were the preparation of production facilities to work smoothly for launch (factor loading 0.58). Such precision can not be carried out without the formalisation of plans and objectives by writing them down (factor loading 0.43).

9.6 Differences in Factors for Success and Failure Services

In determining the intensity of each factor between successful and failed services (see Propositions 2A, in Section 6.5 and 2B, in Section 6.6), the factor scores for the respondents on the new service development activities and tasks of efficiency were examined. For Proposition 2A, where, 'The intensity of factors of new service development activities differs for services which are successful and those that are failures' the results revealed that differentiated performance depends on three of the four 'new service development activities', namely, factors one, two and three (see Appendix A). The results suggest that services which have the advantage of 'Adequate resources and skills' ($p=0.001$), 'Product advantage' ($p=0.011$) and 'Degree of service newness' ($p=0.011$) proved to be more successful than those which became failures. Managers stressed the importance of this for those wishing to expand into the emerging market sector.

A Mann-Whitney U test of the factor scores for Proposition 2B, 'The intensity of factors of tasks of efficiency differ for services which are successful and those that are failures' resulted in only one factor (factor 2). 'Consumer insight' ($p=0.000$) differentiated those activities which had not only been carried out, but also proficiently done, in order to increase the chances of success and prevention of failure of the new service (see Appendix B).

9.7 Differences in Factors for Banks and Insurers

In order to detect possible differences in behaviour between banks and insurers (Propositions 3A and 3B, see Section 7.5) in the development process, the success and failure questionnaires were evaluated together. Ranking scores were extracted for each banking and insurance firm's

respondent, and Mann-Whitney U tests (with a probability alpha level of 0.05) determined whether there was any difference for the sets of new service development activities factors and tasks of efficiency factors chosen.

In response to Proposition 3A, where 'There is a difference in the intensity of each factor of new service development activities between banks and insurers', only one new service development activities process factor (factor 4) showed a difference between banks and insurers (see Appendix C). Insurers ($p=0.000$) concentrate more on, and are better at, creating cross-functional integration. There was a management-facilitated environment where more trust, communication and co-operation between the divisions were found. Insurers unlike banks offered more intangible products and therefore had less operational and system restrictions, allowing for greater co-operation between divisions. Banks complained of a lack of a project manager or champion to co-ordinate all the relevant departments.

For Proposition 3B, 'There is a difference in the intensity of each factor of tasks of efficiency between banks and insurers' the Mann-Whitney U test showed a significant difference ($p=0.034$) in the factor for 'Detailed prediction studies' (see Appendix D). According to the results, banks were more efficient in carrying out pre- and post- launch tests of the new service developed.

In the next section, Chapter Ten, reasons for such findings were discussed with new product development managers. The findings of this South African study are also compared to the literature discussed in detail in Chapter One to Seven. An examination of these factors will offer insight into the development behaviour of the South African financial services industry, especially banks and insurers.

CHAPTER 10: DISCUSSION AND CONCLUSION

10.1 INTRODUCTION

Numerous activities are administered in developing a new service product. Questionnaires regarding the activities undertaken were presented to a large sample of new product development managers in the financial services industry. The results of the study identified eight factors in total that underlie the lists of 'new service development activities' and 'tasks of efficiency'. The factors that differentiated between successful and failed products with regards to the fulfilment and efficiency of new service development activities were also identified. There were four such factors. A comparison of the factors between the groups of banks and insurers stressed two differences in these development factors.

These results were presented to six new product development managers during a post-questionnaire interview. All managers originated from the sample of respondents. The face-to-face semi-structured interviews provided insight and explanations for the new product development behaviour uncovered in the study. To retain the confidentiality of the study, all specific comments will be referred to as 'interviewees' to remain anonymous.

Before beginning a discussion of the factors that are critical for success, it is necessary to understand how the respondents viewed success. According to the literature, different success measures focus on different behavioural factors (Hart, 1993). The factors in this study result from the opinion of managers who perceive a successful product to be one that exceeds a certain level of sales growth and profit objectives.

10.2 PERFORMANCE MEASUREMENT FOR SUCCESS

According to the results, 'sales growth' and 'profit objectives' were the only two, out of six performance measures, that could significantly predict and classify successful products. According to interviews, 'profit' was the traditional banker's choice of performance measurement. It is therefore likely that managers use the other measures as less important performance ratings. 'Sales growth' was considered to be an important performance measure, as real success has rands sales that are relatively greater than the many other recent new service extensions. The respondents may have interpreted this measure to be the market share measurement. The main drive of an institution is not only towards increased sales figures but also to be relatively the best in the market share gained. According to Martin & Horne (1995, in Johne & Storey, 1998), profit, sales, and market share estimates are all typically used by services in analysing the potential success of new services.

The 'sales objectives' measure was not necessarily lacking in significance because it was incorporated into the profit objective measurement. From an accounting viewpoint, sales volume, multiplied by the price, determines the profit amount. Meeting the planned profit objectives therefore incorporates reaching the sales objectives. Yet, reaching sales objectives does not necessarily guarantee a healthy profit or success. The other three measures: opportunities for cost efficiency, improved sales of other products, and opening up of other new markets, were cited by the more informed development manager. However according to this study's results, a good performance in these three measurements does not statistically distinguish the successful from the failed service product.

10.3 SUCCESS FACTORS

Only four factors were found to be critical to the success of a new product. Three were from the new product development activities factors and one from the 'tasks of efficiency' factors. These comprise: adequate skills and resources for development, a product advantage, the degree of service newness, and efficiently gaining consumer insight. Each factor with its respective activities is discussed in turn, highlighting the differences found with regard to the literature. Opinions from the managers in the interviews are included to create a greater understanding of the results found.

10.3.1 Adequate skills and resources

A successful financial service in the South African industry requires the provision of competent skills and an adequate number of various resources during its development. To utilise effectively employees' skills, it was agreed that there needs to be a broad range of functionalists involved in the development of services. Lamb, Hair & McDaniel (1994) and Shostack support such a finding in the literature, (1984a). If resources are not committed, then certain activities related to the new project must be excluded (Cooper & Kleinschmidt, 1987a,c). It appears that the same is true for new financial service development. This is as indicated by its rating as the most important factor in the 'new service development activities'.

The activities that form this factor of success are of differing relative importance. It was learned from the interviews that the capabilities of the technology and production process drives many of the ideas for new services. From this factor, as from De Brentani's (1993) research, it appears that it is the expertise of the production personnel that harnesses the technological resources necessary to design successfully innovative services. The more the

product is standardised according to technological systems, the more it may sell itself, and both the interviews and De Brentani (1993) note that this results in lesser reliance on the selling skills of the frontline. The importance of a leading technological orientation is reinforced by the observance that marketing research and sales force skills are of lesser importance for success (as seen by the loading on the factor). Johne (1993) also finds the reliance on technology in the insurance industry of the United Kingdom. The reasoning for this technological orientation was provided by one interviewee who pointed out that even if the service idea is good and operating systems are adequate, capable technology is still required. A successful South African financial service would therefore need the support of the underlying technology to drive the new offering, as well as the expertise to develop this technology before involving market reaction studies. Johne & Storey (1998) support this study's findings that the emphasis on underlying technology in the development process, implies that financial services are more technologically driven than market driven.

It was found that banks and insurers are constantly trying to develop and expand distribution. It is imperative for success that the new product has access to adequate distribution resources because a service is by nature a process, a point raised often in the literature (Ennew & Watkins, 1992; Langeard, Reffait & Eiglier, 1986; Lovelock 1984). A number of interviewees complained that the failure of a new product was often as a result of not having enough distribution points. For some new banking services it is difficult to allocate enough ATMs for customer convenience. A literature review by Johne & Storey (1998) and in one interview it was noted the more channels there are, the greater the distribution, and the greater the exposure to consumers. As with the literature, South African banks are in need of more channels as well as better utilisation of new technology (De Brentani & Cooper, 1992). Utilisation of new technology, such as the Internet, resulted

in a greater than expected success. Yet one interviewee pointed out how the development of a specific new delivery channel for an emerging market had failed because it was perceived by consumers as too different. The target market had perceived the new channel as discriminatory rather than unique. Such a problem is not specifically related to the logistics of distribution, but rather consumer perception. Insight into consumer perceptions and behaviour is another success factor, and will be discussed in Section 10.3.4.

Additional reasons found in this study and by Johne & Storey (1998) for greater distribution expenditures are: the attempt of banks and insurers to become a 'one stop' financial provider, by servicing new and existing customers with a wider range of products. Some of these new products require new channels, which is often meet with the provision of 'direct channels'. This again refers to the relatively low importance of sales force skills as activities for success in this success factor. However, according to both this study and Atuahene-Gima (1996), if a product's distribution relies on the sales force, then greater is the need for salespersons who are capable and who perform in a consistent manner.

The compatibility of the new service with marketing promotion is also an important activity as is noted by the interviewees and McGoldrick & Greenland (1994). The difficulty associated with evaluating service options leads consumers to rely heavily on personal sources of communication. This places a different emphasis on the advertising and communication tasks demanded from the managers in the development process. Hence the relative importance of adequate advertising and promotion skills in this factor.

More important to success than 'adequate financial resources' was the presence of 'marketing research skills'. An interviewee justified this finding by the fact that the availability of 'more than adequate finance' was less

likely to prevail as an attribute in a success factor as a firm could always do with more finance for a project. Adequate market research skills were found important for successful development of banking and insurance services. The lower weighting of this activity in the factor may be attributed to the fact that not all projects need market research to become a success. Many introductions are rather to neutralise competition, where time is of the essence and market reaction is gained from competitors' offerings. A recent study on services supported this finding (Mohammed-Salleh & Easingwood, 1993). Interviewees also noted that a lack of market research occurs in new services categorised as product adjustments because they are launched to known target markets and environments.

Unlike Martin & Horne (1993) who found that no significant difference between successful and unsuccessful services was due to the involvement and commitment of managers, this research shows that it does have an influence on success. However, management's long-term commitment to developing new products was not one of the most important influential attributes of this success factor. The low involvement of managers was probably due to the type of products that were regularly released. Interviews and current literature confirmed the findings that numerous adaptive or imitative innovations are development and launched as opposed to breakthrough innovations (Schoell & Guitinan, 1995). According to managers in South Africa and the United Kingdom (Johne, 1993), the development of the less innovative products was left to underwriters to proceed with as part of their normal duties and banks have an established tradition of committees.

Synergy is evident in the development of successful South African services, since new distribution resources are needed but not to the extent that they are totally new. A facet for success emphasised by Ansoff as early as 1968

(Ansoff, 1968). Neither is technology required to be totally new for the development of a new service offering.

10.3.2 Product advantage

The second most important factor for success in the 'new service development activities' is the provision of some form of product advantage. A number of researchers (Cooper & Kleinschmidt, 1987c; De Brentani, 1993) found that many service products achieve some degree of advantage, which as in this study, was strongly linked to success. A number of researchers believe 'me too' products may provide some benefit (Cooper, 1975, Davisdson, 1976, Link 1987; Zirger & Maidique, 1990), but it appears from this study's and Cooper & Kleinschmidt's (1995) results that a definite advantage is what is more likely to bring success. The most important activities underlying product advantage are consumers' perceptual base that the service is of a higher quality than the competitors'. A finding shared with a number of researchers (Cravens, 1991; Parasuraman, Ziethaml & Berry, 1984, in Lovelock, 1991). South African customers perceive an advantage where they receive a better image by consuming the product, or where the offering performs highly for the price asked. This agrees strongly with the manufacturing development literature (Calantone & Cooper, 1981; Cooper, 1979b, 1980; Cooper & Kleinschmidt, 1986; Link 1987; Maidique & Zirger, 1984; Parry & Song, 1994), and with certain service studies (De Brentani, 1991; De Brentani & Cooper, 1992; Johne, 1993). Thus, according to the managers the financial sector considers the service to be some form of value proposition for customers.

The reliance on perceptions is quite likely due to the intangibility of services. Many interviewees stressed the need for tangible cues to be consistently of a modern high quality in a good location; an action that is advised by the literature (Berry, 1980, in McGoldrick & Greenland, 1994; De Brentani,

1989; Langeard & Eiglier, 1983). Revamping branches often revealed an increase in client numbers. Managers from the interviews believed that the tangible cues of quality would also enhance or detract from the image and reputation of the banks' and insurers' products.

This study concurs with the services' literature, that consumers gain reassurance from a product's branding when purchasing a new service (McGoldrick & Greenland, 1994; Easingwood, 1986). One interviewee believes that the fiduciary trust in the insurer is found in the branding and image which the client has of the firm, not so much of the individual products. However, the intangibility of financial services does allow new services to be introduced that do not strictly adhere to the current products that make up the image of the firm. Adherence to the firm's image in developing a new service depends on the conservativeness with which the consumers view the institution. This insurance interviewee, for instance, believes that consumers view Hollard insurance as more progressive and radical than Mutual and Federal insurance.

The articulation by consumers of needs throughout the development process, although still a facet for success, appears to be far less important than reported elsewhere (Maidique & Zirger, 1984; Zirger & Maidique, 1990). This is contrary to Martin & Horne (1993), who found no evidence of a greater use of customer input by successful than by unsuccessful service firms.

According to the others, expertise is frequently what consumers are buying (De Brentani & Cooper, 1992), yet differing from past research, the requirement for the delivery of the service need not to be through expert personnel in South African financial firms. This corresponds with the previous success factor, whereby the capability of the technology substitutes for the need for training and for human quality control.

A new service need not be radical to be a success. It is clear from the next factor of success, degree of service newness, that it is not a main contributing factor in providing a positive advantage over competitors.

10.3.3 Degree of service newness

Success in South African financial firms is also achieved through the appropriate degree of service newness, a finding advocated by researchers of services (Link, 1987; Atuahene-Gima, 1996). Success is more likely to be achieved by financial services that do not deviate too far from what customers understand and expect. South African firms are successfully developing services for which customers are not required to expend a major learning effort or too great a change in behaviour. Moreover, the success of a financial service is primarily attained if the intangible benefits of the new offering are understood quickly by consumers.

Of lesser importance to this success factor is the degree of newness of the production process and radical element of the technology. Both this research and De Brenatni & Cooper (1992) showed that a new production process and technology that is synergistic, as opposed to radically new to the firm, is preferable for success (De Brentani & Cooper, 1992). For both South Africa and Australia the lesser degree of product newness seems not to have such a strong negative impact on performance (Atuahene-Gima, 1996). Past successful project managers emphasise the importance of continuing to do what they know best and capitalising on that knowledge (Song & Parry, 1997). Interviews showed that consumers are not radical, and are generally risk adverse (Shostack, 1984a,b). It was said in interviews that consumers prefer an institution that is not going to make risky investments with their money, but that will rather fulfil its fiduciary duty optimally. Thus

reinforcing McKechnie's (1992) belief of a further distinguishing service feature (besides simultaneity, heterogeneity, perishability, and intangibility) for financial services of the fiduciary responsibility of the firm. The differently perceived images of the firms reflects different degrees of risk aversion, and South African consumers choose a new service according to their own inclinations of risk.

10.3.4 Consumer Insight

Of the factors that statistically summarise 'tasks of efficiency', only consumer insight was seen as critical in differentiating between success and failed products. Any bank or insurer may in a precise manner efficiently plan and conduct prediction studies, but it is unlikely to succeed if the offering is not what the consumer needs or wants. Others support the findings that by eliciting consumer insight, a firm may understand consumers' buying behaviour accurately, and further, may advertise and promote the new service with greater success (Cooper, 1979; Parry & Song, 1994).

Management of successful South African financial products includes selling the service idea efficiently to the front line staff, despite service heterogeneity. Frontline support is important because inseparability implies greater opportunity for contact personnel to understand consumer needs and to advise on newer more suitable products. A fact well known to Atuahene-Gima (1996) and Johne & Storey (1998). A finding also supporting others is that the pre-selling of a new service to front-line personnel who have contact with potential clients and appropriate targeting of advertisements and promotion, also play a key role in gaining market acceptance (Johne, 1993; Lovelock, 1991).

To gain such an insight requires a before-launch assessment of consumers' behaviour and the possible post-launch market conditions. All the

interviewees agreed that banks consistently carry out detailed formal analyses of the market through tracking studies so as to be aware of their consumers' buying behaviour. Small ideas are developed rather informally, with little market research, as the product is for a market into which they already have insight. Insurers differ slightly in their methods of attaining consumer knowledge. This will become evident in the Section 10.3.2 on detailed prediction studies. Unlike a number of service studies (Davidson, Watkins & Wright, 1989; Easingwood, 1986), successful South African financial services provide adequate preliminary assessment of the market before development. South African banks enthusiastically used concept testing and needs analysis with focus groups as part of their market research.

The accuracy of post launch assessments is very important for success, which again emphases the importance of efficiency in developing successful new South African services. Interviews highlight that the greater the resources which are needed for development and investment, the more formal the assessment. There is no empirical research in this study or in past studies, as noted by Johne & Storey (1998), to support this finding. Accuracy of measurement after a South African financial service has been launched is possible through the availability of good computerised systems, known to be of a first class, worldwide standard.

A detailed determination of financial viability, and a thorough pre-commercialisation analysis are not of lesser importance for development, even though it appears so on this factor. These development activities are found to be significant for the other success factors as well. Presence of these activities in a number of factors lowers their factor loading (or importance) for each factor, and this leads to the misconception that they are of lesser importance. Their repeated appearance enforces their importance to the

development process. Both Keegen, Moriety & Duncan (1995) and interviews showed that detailed financial analysis and pre-commercialisation analyses, which are revenue based, are carried out. Easingwood (1986) also found that less formal financial estimates were made, but only a small majority bases decisions on estimates of market research intentions. As will be seen in the detailed prediction studies in Section 10.3.2 this is not so for South African financial institutions.

10.4 Differences Between Banks and Insurers

Of the eight factors that describe the activities that are undertaken for new service development and their efficiency, four were critical for developing a successful service. The other four were non-critical factors that underlie the South African financial service development process. There was a significant difference between banks and insurers in the way two of these factors were performed.

10.4.1 Cross-functional integration

Past studies found cross-functional integration to be critical for success (Atuahene-Gima, 1996; Johne & Snelson, 1990). However it played no part as a critical success factor in South African service development. Although this factor is the least important factor of new product development activities, it does highlight that cross-functional integration is a factor required for development in South African financial institutions. According to management interviews and a recent services study (Atuahene-Gima, 1996) this is due to the greater intangibility and heterogeneity of services which demand teamwork and communication.

To overcome uncertainties in defining customer needs, design, quality control or competition, teamwork is required amongst departments (Lovelock, 1984b;

Atuahene-Gima, 1996; Johne & Snelson, 1990). In this study, as in De Brentani (1993), such teamwork in financial services is characterised by involvement, communication, trust and co-operation among personnel from different functional areas. The co-operation of functionalists was not viewed as an insurmountable hurdle.

It was realised that for innovation teams to work, top South African management must play a supportive role, although perhaps, not as strong a role as other literature suggests (Edgett & Jones, 1991; Johne & Snelson, 1993; Martin & Horne, 1993). In interviews it was suggested that less managerial support was found because teams or line managers were expected to instate product improvements as part of their normal duties. South African financial developers believe that managers should provide an environment that lends itself to easy inter-departmental communication for the development process (Booz, Allen & Hamilton, 1982; De Brentani, 1993; Easingwood, 1986; Sarin & Kapur, 1990).

Although this factor was not critical to success, the statistical analysis highlights the difference in performance between insurers and banks in cross-functional integration. For this factor insurers had a more positive Mann-Whitney U score. The interviews explained, insurers are not better at cross-functional integration, but the nature of the insurance firm does not demand as stringent a level of integration as do banks. There is less need for trust between the departments, as actuaries provide the terms of the policy, and very few employees can argue with numbers that are based on educated forecasts.

An insurance manager revealed that insurance policies, and other instruments, are often distributed through brokers. A broker performs much of the product, technical and marketing development functions that are

traditionally the tasks of the insurer. Brokers are not loyal to one particular insurance firm or product and may change the portfolio of products offered, especially if they are not content with a particular insurer's product.

Insurance products are more strongly regulated and therefore there is less need for negotiation among the departmental representative of the development team. As this study's demographics verify, an interviewee believes that insurers are smaller in company size and therefore are able to perform better at this factor. Johne (1993) also found integration is easier for smaller insurance firms in the United Kingdom.

In banks, multi-functional teams work in the development process; a product cannot begin to exist without the support of all the functional sections. Conflict occurs within teams, mainly as each departmental representative has their own profit objectives to achieve. However the interviewees believe this conflict to be healthy, since it allows free and independent thinking. In agreement with the Sasser (1976) bank managers in three interviews encourage bank participants in the multi-functional team to work together from the stage of idea screening to launch.

10.4.2 Detailed prediction studies

South African functioning does not accord with most of the literature with regard to carrying out detailed prediction studies. In the general literature, the eagerness to match competition predisposes service firms to dispense with, or to handle very inefficiently, critical development activities such as market assessment and concept and market testing (Bowers, 1989; Easingwood, 1986; Edgett, 1993; Mohammed-Salleh & Easingwood, 1993). Yet from the results of this study, South African banks, rather than insurers, are more efficient in conducting such prediction studies. It has been claimed that customer mobility makes it difficult to test monetary transactions and

products (Martin & Horne, 1993; Mohammed-Salleh & Easingwood, 1993). However, South African banks carry out pilot tests on new products in small isolated markets, such as Nelspruit. This differs from the non-South African research findings that banks do not wish to conduct pilot testing because of the equivalence in cost of launching. According to Easingwood (1986) and this study, pilot tests are often to test and refine the new service system. More than that in South Africa, they are used to assess the reaction of a sample of target customers. Not every idea is pilot tested; product testing in South African banks and elsewhere usually will begin with informal qualitative screens to reduce a large number of projects to a manageable few (Edgett, 1993). These ideas go forward for more stringent and costly tests, such as the pilot test. Pilot testing is not always necessary, for the decisions to pilot and the rigour of the study are influenced by the innovativeness of the new product. As seen by this detailed prediction factor, formal market studies are carried out on a consistent basis. This is significant for one bank interviewee, as he believed they have a continual daily relationship with consumers, whereas insurers do not. The greater emphasis by banks on detailed studies of post launch conditions and reactions is also due to the presence of tangible goods in their new offerings. The manufacturing literature dictates the need for pilot testing of physical goods. Insurances do not have such an array of physical supporting goods for their products.

One insurance interviewer was bold enough to say that insurer' ideas and development processes are relatively more economically driven than those of the banks, which are more market-oriented. Therefore, it is not surprising that banks are significantly better at detailed prediction studies. Insurers provide very mature products which are derived on the basis of a cost orientation. Detailed studies of market reaction to the product are of lesser importance to insurers. A finding by Johne's (1993) insurance study was supported in this study, in that smaller insurers are still making extensive

use of sales force feedback as means of market research. A common comment from interviewees was that there are no really new insurance products, and that product development is merely a matter of putting together different policies with a 'few frills' to make them attractive to different market segments. On the other hand, South African insurers consider it necessary to conduct specific and detailed studies of post-launch conditions, a factor considered important for success by Johne & Storey (1998).

10.5 Common Factors That Are Not Critical For Success

Planning and precision are the last two factors that summarise the efficiency activities. They proved to be neither factors for success or failure nor was there a significant difference between development processes of banks and insurers.

10.5.1 Formalised Plans

In this study the most important efficiency tasks are those which formalise the development activities. The majority of South African managers believed from the point of inception of the idea, in shaping a step-by-step game plan for these inherently intangible products. One interviewee believed the orientation of insurance planners to be poor because their approach is idealistic, mechanistic and quantitative, whereas it should be realistic, creative and flexible. A number of service firms cited in the literature believe the conventional manufacturing wisdom that firms which fail to integrate development at a strategic level, or to utilise formal procedures will fail and those do will succeed (De Brentani, 1991, 1993; Johne & Pavlidis, 1991, in McGoldrick & Greenland, 1994; Lovelock, 1991; Reidbach & Moak, 1986). Nevertheless, firms from South African and United States of America found no significant difference between successful and unsuccessful firms on the basis of

the formality of their service innovation processes (Martin and Horne, 1992). It may then be inferred that both failed and successful products are planned in a formalised manner. It is, however, quite common to find in the literature a lack of formalised planning for services (De Brentani & Cooper, 1992; Easingwood, 1986; Edgett, 1993; Scheuning & Johnson, 1989). The probable reason, that one manager suggested, that formalised planning was not a success factor was that banks and insurers tend to over-plan, and are unfortunately less efficient in actually executing plans. Most interviewees stressed that South Africa has a volatile market, and the length of the planning horizon has been shortened from five-year to a three-year plan with only the most detailed planing possible for one year. Although a number of plans were disrupted by unforeseen events, managers agreed that the deadlines that were provided were perceived as being vital to the process.

For those innovations that were more *ad hoc* in nature, the need for a written document outlining the co-operation between departments was considered important by a number of interviewees. Where a new product charter was drawn up between departments, this was to minimise conflict by clearly stating the goals and functions of each in the development process. Pre-commercialisation business analysis and detailed financial analysis were found in this factor too, which showed the importance of financial budgets for new innovations. The importance of these budgets for financial services is also found by De Brentani's (1993) study.

10.5.2 Precision

Results agree with those in the manufacturing literature stating that a well-managed and efficient service has a well-defined product concept (Cooper & Kleinschmidt, 1987a,c; 1993). The precision activities to be undertaken in the beginning of the process are to define clearly and to describe the

specifications of the new service idea (De Brentani, 1993; Feldman & Page, 1984). Such precise ideas create a useful new product charter that make it easier to screen out those that are unworthy for further development.

Clear definition and product specifications help multi-functional teams to overcome their conflicting perspectives on how the new product problems should be solved. Even though it was reported that the intangibility of services allows relatively greater ease in designing new products it is more difficult for everyone involved to perceive the same goal concurrently. Conflict in teams is not new in the literature (Easingwood, 1986; Martin & Horne, 1993).

The study described precision as to what the product should be and how it works technically is vital for market research. Only with that knowledge may an accurate understanding of customers' buying behaviour produce marketable services, according to the interviewees and an abundance of literature (Calantone & Cooper, 1981; Cooper, 1979b, 1980; Cooper & Kleinschmidt, 1986, 1987a, 1993; De Brentani, 1989; De Brentani & Cooper, 1992; Maidique & Zirger, 1984). In South Africa, precision is required not only for predevelopment activities of the process but also for post-development activities. To perform post-development activities efficiently requires a clear understanding of the new product's technical aspects and production facilities.

Compared to the other 'tasks of efficiency', precision is the least important, and does not critically distinguish between successful and failed products. It has however been noted by some researchers that a meticulous approach, both up-front for developing initial concepts and service designs, as well as for later steps during the launch and post-launch phases, is significantly

linked to high performance (Cooper & Kleinschmidt, 1993; De Brentani, 1993).

10.6 CONCLUSION

Success is derived from multiple factors. A host of important activities need to be managed completely and in a balanced and well co-ordinated manner to result in success. Compared with what has emerged consistently from new product studies in manufacturing, a relatively small set of factors determines new product success for banks and insurers. Although the factors are similar to those in manufacturing, the activities are influenced by the characteristics that are unique to service products. An examination of these factors will help determine if any actions carried out, by South African managers, may be changed such that the final performance of a new product is affected.

The findings confirmed conclusions drawn from previous service studies of new product projects. Primarily, South African financial service managers were developing successful services with superior technological resources, which are supported expertise. A well devised distribution strategy and provision of channels is also of primary importance for performance. A product advantage has to be perceived by the consumers. A perception of quality service or service that increases the consumer image of it is strongly linked to success. So long as the new product does not require a great diversion in consumer adoption behaviour, success is likely. Developers who accumulate consumer insight by adequately and efficiently assessing the market can use that knowledge to promote the new service successfully to consumers and frontline staff.

In comparison to the other studies in the literature on services, an execution of certain activities within the success factors appeared to be substantially

different. Contrary to previous research findings, detailed formal analysis of consumers' behaviour and their financial viability was conducted which provided useful information about the market. These activities are often reported as weak in the service literature, and this results in an ineffective pre-development preliminary assessment. The input of consumer information throughout the process was considered less relevant than was believed of other services. An expert staff was not considered necessary for service delivery, but a trained and well-informed frontline staff member was. An adequate preliminary assessment of more innovative projects was performed, which is seldom seen in the literature.

The four other factors that complete the picture for developing South African services are: cross-functional integration of development teams, efficiency of formalised development plans, detailed studies to understand market reaction, and the precision of defining the product specifications. Even though these are not critical for success, some of the activities show a number of interesting deviations from past service research. South African developers formalise plans and undertake detailed prediction studies of the market. The formal planning of services, a very irregular activity according to other research, is considerably overdone by South African services. Learning when to plan and when a more *ad hoc* approach is suitable will increase the success of a project. The most noticeable difference in South African service developers was the willingness to conduct pilot studies and actually use them. Although there is a strong technological orientation, the use of pilot studies and corresponding market research hints at a strong secondary market focus.

None of the differences between banks and insurers new product development factors was found to be critical for success. This implies that

each may produce successful projects that are suitable for the climate of increasing deregulation between the two types of firms.

10.7 Implications and Recommendations

The findings of the study have a number of theoretical and managerial implications for South African financial firms.

10.7.1 Performance measures to use

The findings lead to several conclusions about how the performances of new services are measured in the financial services sector. Different performance measures focus on different aspects of development. This aids managers in two ways. Firstly, it informs them which of the multi-dimensional performance measures to use when evaluating a newly developed financial product. Secondly, it advises them which activities to concentrate on in order to perform well on those specific measures.

Theoretically, it cannot be said from the results of this study that the fulfilment or lack of fulfilment of any of the stated factors in this study results in failure. It is not that product failure does not occur in South Africa, but rather that failure may be due to reasons external to the activities mentioned in the study. External influences on the development process may be, for instance, the introduction of foreign products, or a change in legislation, or organisational changes in structure.

10.7.2 Provision of adequate resources and skills

To gain advantage from a new service offering there needs to be more than the backing of financial strength. New technological resources are taken into account more as opportunities for potential distribution channels come into existence. A recent example is the desire to use cellular telephones for ATM

transactions. Investing in new technology is not advantageous without the backing of the appropriate technological skills. The availability of service expertise is increased with the correct hiring policies and training of current workers.

The intangibility characteristic of services also requires that promotion budgets should not be cut in favour of other budgets, as they are an important vehicle in communicating product differences, advantages and image to consumers. Accurate promotion, of course, relies on consistent research into target markets. Successful firms will conduct pilot studies around innovations that demand a large investment or are relatively 'new' compared with what consumers are accustomed to.

It is advisable that the skills and resources needed for the new product are synergistic with the firm's current ability. This allows managers to capitalise on in-house skills and existing resources in marketing, R&D, production, distribution and launching. Therefore, when evaluating and prioritising proposed new service products, developers should first check for the existence of synergy. Any radically new service process should be a platform for future new service offerings and not a stand-alone product.

10.7.3 Creation of a definite product advantage

For banks and insurers, product advantage is perceived according to the image of the firm and the image that customers gain from their use of the service. Successful service development therefore requires that firms identify what it is that buyers perceive as quality service, and incorporate these features into the service design. Unless services are clearly differentiated, they tend to be generic because they are so easily imitated. Focusing on new and superior ways to solve old problems, and offering creative ways to differentiate the service experience are important routes to achieving a

strongly competitive position. This may be done through the provision of faster, more reliable services when experts or trained personnel are involved. Where more tangible evidence is available, such as in banks, quality is emphasised through a strong company image and logo, or enhanced appearance of the front-line. The features that hinder competitor' responses need to be compatible with internal capabilities and resources.

10.7.4 Appropriate degree of service newness

Managers may still introduce radical innovations, but they must fit in with target customers' consumption patterns. New services should be easily understood, and should not require major learning effort or time for effective use. So radical innovations should also be avoided if considerable advanced planning for service adoption is required. Where a relatively new service is launched, promotional activities can educate consumers, and hence help to increase the acceptance of the product and to reduce the customers' perceptions of risk.

10.7.5 Proficiently gain consumer insight

Consumer insight is the only factor of efficiency that differentiates between successful and failed services. Customer insight refers to the 'selling to' and 'understanding of' the internal and external customers of the firm. Managers need to understand their own service so as to gain involvement and commitment from front-line personnel and salespeople. Front-line staff need an awareness that they form part of the marketing, and that promotion is not solely the function of the Marketing Department. An understanding of external customers' needs through adequate assessment before launch is essential to preventing a financial loss. Management should support the implementation of such assessment steps in the development of a service. One may assess consumers' responses and financial viability through the conducting of market research. Choosing a sample in a town that is

geographically isolated can prevent complications of money mobility, and it also isolates the research from competitive influences. To conduct market research well, the location still needs to be representative of the target market. However, being isolated introduces other variables not prevalent in a larger, better integrated situation.

10.7.8 Adjustment due to deregulation

Deregulation allows a greater choice of previously unlawful products to be sold by each type of financial firm. The differences in executing cross-functional integration and prediction studies are an indication of what banks and insurers need to consider when developing each others' traditional products. Insurers should learn from banks regarding a better understanding of their consumers, if they wish to remain competitive. Banks need flexibility in learning how to function with products that have relatively fewer physical attributes. Banks' team members will have to adjust to having a new team member -- the actuary.

In summary, managers who commit adequate resources, and hire appropriately skilled employees for new service development are likely to have a successful new product. However, success is based on multiple factors and financial managers also need to create services that are perceived as advantageous and are appropriately new to the selected target market. All new financial services need to be supported by the results of proficient assessment of consumer behaviour. Moreover, banks and insurers might need to adjust their new service development activities to be able to launch insurance and banking products respectively. Firms that are able to accomplish this will be in a better position to meet the increasingly competitive markets that will characterise the financial markets of the future.

10.8 Contribution of the Study to the Literature

The study is important for several reasons. It contributes to a more comprehensive understanding of the key determinants for developing a new service in the South African financial industry. Moreover, it stresses the developmental factors and efficiency factors that are critical for producing successful banking and insurance products. The study allows banks and insurance firms to compare their similarities and differences in order to evaluate the possibility of developing their own non-traditional products in the climate of deregulation. The literature regarding success and failure factors in new service development will increase with these findings that represent the very competitive South African industry. The results also provide the opportunity of comparison with the dominant North American literature on new service development.

10.9 Limitations

The measurement of variables with informants is subject to the ubiquitous problems of key informant bias or a lack of knowledge pertaining to new services development. This research is also limited by the boundaries of the theory base, although the pre-testing and interviews with managers should have raised important variables that were not included in the literature. The success and failure factors are derived from the activities and efficiency tasks that make up the development steps; no other possible influences such as the market environment or profile of management are included in the questionnaire. The study is specific, and is intended for the unique environment of South African financial firms. It cannot be generalised to other industries and national contexts. The product that was examined was the choice of the respondent; however certain product characteristics were set to narrow the type of product. Regarding the performance suitability of the

choice product, there are a number of performance questions that suggest that the respondent's choice might be appropriate. Furthermore, for meaningful results it was necessary to choose a service that could be considered either a clear success or failure. It is also assumed that the respondents answered openly about service failures. Insurers comprised a larger portion of the sample, and therefore the results are biased towards their responses, but the post questionnaire interviews helped to discover any noticeable differences. The study did not control for the purpose of developing the new service, which may determine the way in which the performance is assessed.

10.10 Further Research

- The research sample was selected from a population that consisted of banks and insurers. This study could be repeated for specific types of firms within each sector, such as short-term insurance and life assurance.

- This research was restricted to the activities involved with performing each development step. Environmental uncertainties may influence the relative importance of tasks undertaken in the process. Additional research is needed to examine the potential effects of competition, changes in legislation, and changes in socio-economic variables on the steps taken. A new set of factors for success and failure may be derived from this.

- Even though the activities that make up the new service process were examined, the actual process of development was not. The finding of differences in the new product development process for insurance products in banks and insurance products by insurers could lead to competitive insight.

- It would be useful to conduct a study to find out what types of products result in what types of success or failure. As different performance measures evaluate different product characteristics and activity strengths.

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Insurance Act 27 of 1943
Mutual Building Societies Act of 1965
Mutual Savings Act of 1993
Pension Funds Act of 1956

APPENDICES

Appendix A

Comparison between success and failure factors of 'new service development activities'

Mann-Whitney U Test					
Variable	Rank Sum for success	Rank Sum for Failure	U	Z	p-level
Factor 1	5082.00	2421.00	1196.00	-3.094	0.001974
Factor 2	4976.00	2527.00	1302.00	-2.540	0.011066
Factor 3	4975.00	2528.00	1303.00	-2.535	0.011233
Factor 4	4678.00	2825.00	1600.00	-0.984	0.324906

Appendix B

Comparison between success and failure factors of 'tasks of efficiency'

Mann-Whitney U Test					
Variable	Rank Sum for success	Rank Sum for Failure	U	Z	p-level
Factor 1	660.00	666.00	315.00	-0.188	0.850547
Factor 2	874.00	452.00	101.00	-4.220	0.000024
Factor 3	659.00	667.00	316.00	-0.169	0.865341
Factor 4	634.00	692.00	309.00	-0.301	0.763054

Appendix C

Comparison of 'new service development activities' factors between banks and insurers

Mann-Whitney U Test					
Variable	Rank Sum for banks	Rank Sum for insurers	U	Z	p-level
Factor 1	2407.00	5096.00	1372.00	-0.912	0.055770
Factor 2	2918.00	4585.00	1582.00	-0.798	0.424535
Factor 3	2859.00	4644.00	1641.00	-0.485	0.627311
Factor 4	1968.00	5535.00	933.00	-4.242	0.000022

Appendix D

Comparison of 'tasks of efficiency' factors between banks and insurers

Mann-Whitney U Test					
Variable	Rank Sum for banks	Rank Sum for insurers	U	Z	p-level
Factor 1	654.00	672.00	303.00	-0.414	0.678490
Factor 2	594.00	732.00	243.00	-1.545	0.122341
Factor 3	788.00	538.00	213.00	-2.110	0.034838
Factor 4	657.00	669.00	306.00	-0.356	0.720344

Appendix E
Discriminant Function Analysis Summary

Discriminant Function Analysis Summary				
n = 80	Wilk's Lambda	F-remove	p-level	Tolerance
Sales objective	0.703721	33.80904	0.00000	0.896353
Profit objective	0.522098	5.21046	0.25212	0.896353

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STUDY OF SOUTH AFRICAN PRODUCT SUCCESS

The SCHOOL OF ECONOMICS AND BUSINESS STUDIES thanks you for your willingness to participate in this essential study related to new product success and failure. Your answers will remain strictly confidential and will not be disclosed to any third party. We will be pleased to provide you with an executive summary on completion of this project should you request it.

There are no right or wrong answers to the following questions, especially when it is considered that every service marketer responds to very different internal capabilities and external demands.

- As you answer this survey please keep in mind **YOUR CHOICE OF ONE** particular **SUCCESSFUL** service (product).
- It would be most beneficial to choose a product that you regard as a **SUCCESS**.
- It must have been launched within the past 3 years.
- Please avoid choosing a new product considered to be a "me-too" product or one with just a slight enhancement
- (ie bells and whistles)
- "New product" entails any launch into the market which is more than a straight forward "me-too" product

SECTION 1: COMPANY AND NATURE OF THE PRODUCT (Please tick the most applicable box ☑)

Your name* _____ (*Optional - required only for contact/enquiries)

Q1: The core of your firm may be mainly described as ...

a banking product provider ☐ (1)
an insurance/assurance product provider ☐ (2)

Q2: How many full time people does your whole firm employ in South Africa? (tick one ☑)

1	- 500	☐ (1)	5001	- 10 000	☐ (3)	20 001	- 30 000	☐ (5)
501	- 5000	☐ (2)	10 001	- 20 000	☐ (4)	over 30 000		☐ (6)

Q3: Approximately, how many direct competitive brands are there in the market for this type of product? _____

Q4: This new product has been on the market since 19_____

Q5: For the product you have chosen for this survey, did your firm... (tick one ☑)

Develop it in-house from beginning? ☐(1)
Acquire it from a South African R&D group/ competitor? ☐(2)
Acquire it from abroad and then develop it further? ☐(3)
Acquire it from abroad and launch it as was? ☐(4)

Q6: New products are developed: (please tick as many as appropriate ☑ ☑)

for the whole company by a new product development task force (1)	partly from the respective small business units (2)	partly from the regional offices (3)	partly from the head office (4)	other (5)

Q7: Compared to the rest of the firms in your industry, how would you rate your frequency of launch of new products?

Below average (1)	Average (2)	Above average (3)

Q8: Do you have a database of existing customers ? Y (1) N (2)

IF YES : a) Do you use this client database when selling your existing products? Y (1) N (2)
b) Did you test the idea of your new product on this existing client data base? Y (1) N (2)
c) Do you use this client database when selling your new products? Y (1) N (2)

Q9: The SUCCESSFUL product you have chosen for this questionnaire may adequately be described as..
(tick applicable boxes ☑ ☑)

A "Me too product" (not really new but very similar to competing brand) ☐ (1)
Adaptive or revision improvement (enhancement of an existing product) ☐ (2)
Product improvement (substantial form or function difference, it makes existing products in category old) ☐ (3)
New line extension (includes new product that supplement a firm's established line) ☐ (4)
New to firm line extension (firm has not previously offered this product to one of its markets) ☐ (5)
Real invention ☐ (6)

Q10: To adequately classify your product we need to understand certain of its characteristics. On a scale from "strongly disagree" to "strongly agree", please tick the box that best describes your firm's attitude to the following statements.
(tick one ☑ per statement)

Q10 STATEMENTS	Strongly disagree 1	Disagree 2	Neither disagree or agree 3	Agree 4	Strongly agree 5
1 We view it as a high risk one to our firm.					
2 From the firm's perspective, it is a very high technological product.					
3 It sells for a relatively high price in comparison to similar services.					
4 It is a custom product, as opposed to a standard one.					
5 It requires less adaptation by the users than competitors' offerings.					
6 It is very intangible and is not connected to *any* physical products/ facilities owned by a client.					
7 For this product, front line personnel are expected to be experts or professionals who perform important judgmental tasks.					
8 It was a defensive introduction to maintain our market share in this market as opposed to gaining market share or new customers.					

SECTION 2: PERFORMANCE MEASURES

Q11: What is the estimated domestic market share of your product 3 years (or less) after launch?

less 1% 1	1-5% 2	6-20% 3	21-40% 4	41-60% 5	61-80% 6	81-100% 7

Q12: It is possible to measure a product's performance from a number of different viewpoints. With regard to the degree of success, be it high success or low success, please indicate on a scale of one to five, how you feel your new product has performed according to these different measures. If your firm chose not to measure the product in the way described please tick box marked NU (not used).

Q12 PERFORMANCE STATEMENTS	DEGREE OF SUCCESS Low				High	not used
1 Sales growth: the degree of rand sales relative to the firm's other recent new product introductions in the last three years.	1	2	3	4	5	NU
2 Sales objectives: the degree to which your new product has been successful in meeting corporate sales objectives per unit sold/ transactions completed.	1	2	3	4	5	NU
3 Profit objectives: extent to which profits exceeded profit objectives.	1	2	3	4	5	NU
4 The degree to which your new product provided opportunities for cost efficiency.	1	2	3	4	5	NU
5 The degree to which your new product improved sales of your other products.	1	2	3	4	5	NU
6 The degree to which your new product opened up other new markets.	1	2	3	4	5	NU

SECTION 3: NEW PRODUCT DEVELOPMENT ACTIVITIES

Firms follow different ways of developing new products, so there is no one optimal sequence or set of activities which have to be followed to be successful. From a choice of 1-5 of "strongly disagree" to "strongly agree", tick the box that is nearest to how much you agree with the statement regarding your chosen product. Please be as accurate as possible.

Q13	DEVELOPMENT ACTIVITY STATEMENTS	Strongly disagree 1	Disagree 2	Do not agree or disagree 3	Agree 4	Strongly agree 5
1.	Our firm's financial resources were more than adequate for the development of this product.					
2.	Top management was involved in the day-to-day management and direction of the product's development.					
3.	The development team had representatives from marketing and R&D.					
4.	In our firm, marketing and technical people do not generally trust each other.					
5.	This product does not fit in well with the image of our firm.					
6.	Management provides an environment conducive for different functions/departments to easily communicate with each other.					
7.	Compa... experts or professionals play an important role in delivering the pro...t.					
8.	On ...s whole the different divisions struggled to co-operate when trying to fulfi... their own objectives required by the product.					
9.	The distribution channel for this product was totally new to our company.					
10.	This product is of a higher quality (either more reliable, longer lasting, tighter specifications, faster) than our competitors.					
11.	Customers had an input through most of the development process.					
12.	The nature of the production process was not totally new to our company.					
13.	Our marketing research skills were more than adequate for this product's development.					
14	This product provides a high performance compared to the pri...ked.					
15.	Our sales force's skills and resources were more than compatible for this product.					
16.	This product demands little change in consumers' behaviour or attitude.					
17.	This product offered customers a better image with the use of it.					
18.	There was a team leader of the project who was heavily involved from initial idea development to launch.					
19.	This innovation is more radical with respect to world technology than competing brands/services.					
20.	The type of advertising and promotion required was new to our company.					
21.	Our R&D skills were more than adequate for this product's development.					
22.	All the necessary disciplines co-operated and had input from generation of the idea until launch.					
23.	The product idea came to us from the marketplace, as opposed to in-house lab or technical work.					
24.	Our advertising and promotion skills were more than adequate and compatible for this product.					
25.	This new product is not close to the main business area and expertise of firm.					
26.	It took time before customers could understand the benefits of the new product.					
27.	The new product requires a major learning effort by customers.					
28.	Managers have a long term commitment to developing new products.					
29.	The technology (R&D) required to develop this product was totally new to us.					
30.	Our distribution resources were more than adequate and compatible for this product.					
31.	Our company's production technology skills were more than adequate for the development of this product.					

SECTION 4: PROFICIENCY OF DEVELOPMENT

We are interested in your opinion of the degree of **EFFICIENCY** with which each development activity was carried out for your successful product. Note that not all new products go through all of the development activities, in such a case please tick the NOT USED (NU) box. For the rest please tick a number from 1 to 5 that best represents the amount by which you agree your firm efficiently carried out the development task.

Q14	EFFICIENCY OF DEVELOPMENT	DEGREE OF AGREEMENT None				Complete	*not used*
1	Early in the development process a clear product definition was prepared.	1	2	3	4	5	NU
2	The first review of the venture was a screening of the product idea.	1	2	3	4	5	NU
3	Adequate preliminary assessment of the market for the product idea occurred before any development.	1	2	3	4	5	NU
4	For this product, our firm carried out a detailed formal study of the market on a consistent basis.	1	2	3	4		NU
5	We did not perform a pilot test with customers.	1	2	3	4	5	NU
6	We knew the customer's buying behaviour - the who, what, when, where of the purchase.	1	2	3	4	5	NU
7	We relied mainly on the sales force and customers' complaints as an indication of market needs.	1	2	3	4	5	NU
8	The project specifications - exactly what the product should be - were very clear from the beginning of the project.	1	2	3	4	5	NU
9	Objectives and plans were formalized in writing.	1	2	3	4	5	NU
10	The firm drew up a new product charter between the main departments so as to outline long term plans and objectives.	1	2	3	4	5	NU
11	Step by step game plan for this product's development was drawn up in the beginning.	1	2	3	4	5	NU
12	We had no need for formal plans, ad hoc plans for this sort of product in the past have been sufficient.	1	2	3	4	5	NU
13	We conducted a detailed financial analysis to determine the financial viability of the product project.	1	2	3	4	5	NU
14	We conducted a thorough pre-commercialisation business analysis following product development, but prior to full scale launch.	1	2	3	4	5	NU
15	The technical aspects - exactly how the technical problems would be solved - were not very clear form the beginning.	1	2	3	4	5	NU
16	Our advertising, promotion and communication effort turned out to be very well targeted - at the right customers.	1	2	3	4		NU
17	Our product facilities were geared up and ready to work smoothly for the product launch.	1	2	3	4	5	NU
18	The project could not be tried on a small scale - it would have required a major investment.	1	2	3	4	5	NU
19	We did not consider it necessary to conduct a specific and detailed study to predict post launch conditions.	1	2	3	4	5	NU
20	We found the post launch evaluation to be very accurate.	1	2	3	4	5	NU
21	Management did a good job of marketing the new product to front-line staff.	1	2	3	4	5	NU

Thank you for your valuable time and effort.
A self-addressed envelope is included for your convenience
Please return before **November 30th** 1997.
64A or Fax: (011) 339 7385.
Would you like to receive an executive summary of the results ? | Y | N |

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THIS IS NOT A SURVEY

STUDY OF SOUTH AFRICAN PRODUCT SUCCESS

The SCHOOL OF ECONOMICS AND BUSINESS STUDIES thanks you for your willingness to participate in this essential study related to new product success and failure. Your answers will remain strictly confidential and will not be disclosed to any third party. We will be pleased to provide you with an executive summary on completion of this project should you request it.

There are no right or wrong answers to the following questions, especially when it is considered that every product marketer responds to very different internal capabilities and external demands.

- As you answer this survey please keep in mind **YOUR CHOICE OF ONE** particular UNSUCCESSFUL servic (product).
- It would be most beneficial to choose a product that you regard as a **FAILURE**.
- It must have been launched within the past 3 years.
- Please avoid choosing a new product considered to be a "me-too" product or one with just a slight enhancement (ie bells and whistles)
- "New product" entails any launch into the market which is more than a straight forward "me-too" product

SECTION 1: COMPANY AND PRODUCT CHARACTERISTICS (Please tick the most applicable box ☑)

Your name* _____ (*optional - required only for contact/inquiries)

Q1: The core of your firm may be mainly described as ...

a banking product provider ☐ (1)

an insurance/assurance product provider ☐ (2)

Q2: How many full time people does your firm employ in South Africa? (tick one ☑)

1-500	☐ (1)	5001- 10 000	☐ (3)	20 000- 30 000	☐ (5)
501- 5000	☐ (2)	10 0001 - 20 000	☐ (4)	over 30 000	☐ (6)

Q3: Approximately, how many direct competitive brands are there in the market for this type of product? _____

Q4: This new product had been on the market from _____ to _____

Q5: For the product you have chosen for this survey, did your firm... (tick one ☑)

Develop the product in-house from beginning? ☐(1)

Acquire it from a South African R&D group/ competitor? ☐(2)

Acquire it from abroad and then develop/adjust it further? ☐(3)

Acquire it from abroad and launch as was? ☐(4)

Q6: New products are developed: (please tick as many as appropriate ☑ ☑)

for the whole company by a new product development task force (1)	partly from the respective small business units (2)	partly from the regional offices (3)	partly from head office (4)	other (5)

Q7: Compared to the rest of the firms in your industry, how would you rate your frequency of launch of new products?

Below average (1)	Average (2)	Above average (3)

SECTION 3: NEW PRODUCT DEVELOPMENT ACTIVITIES

Firms follow different ways of developing new products, so there is no one optimal sequence or set of activities which have to be followed to be successful. From a choice of 1-5 of "strongly disagree" to "strongly agree", tick the box that is nearest to how much you agree with the statement regarding **your chosen failed product.** Please be as accurate as possible.

Q13 DEVELOPMENT ACTIVITY STATEMENTS	Strongly disagree 1	Disagree 2	Do not agree or disagree 3	Agree 4	Strongly agree 5
1 Our company's financial resources were more than adequate for the development of the product.					
2 Top management was involved in day-to-day management and direction for the product's development.					
3 The development team had representatives from marketing and R&D.					
4 In our firm marketing and technical people do not generally trust each other.					
5 The product did not fit in well with the image of our firm.					
6 Management provides an environment conducive for different functions/departments to easily communicate with each other.					
7 Company experts or professionals played an important role in delivering the product.					
8 On the whole the different divisions struggled to co-operate when trying to fulfill their own objectives required by the product.					
9 The distribution channel for this product was totally new to our company.					
10 This product was of a higher quality (either more reliable, longer lasting, tighter specifications, faster) than our competitors.					
11 Customers had an input through most of the development process.					
12 The nature of the production process was not totally new to our company.					
13 Our marketing research skills were more than adequate for this product's development.					
14 This product provided a high performance compared to the price asked.					
15 Our sales force's skills and resources were more than compatible for this product.					
16 This product demanded little change in consumers' behaviour or attitude.					
17 This product offered customers a better image by using it.					
18 There was a team leader of the project who was heavily involved from initial idea development to launch.					
19 This product was more radical with respect to world technology than the competing brands/products.					
20 The type of advertising and promotion required was new to our company.					
21 Our R&D skills were more than adequate for this product's development.					
22 All the necessary disciplines co-operated and had input from generation of the idea until launch.					
23 The product idea came to us from the marketplace, as opposed to in-house lab or technical work.					
24 Our advertising and promotion skills were more than adequate and compatible for this product.					
25 This new product was not close to the main business area and expertise of firm.					
26 It took time before customers could understand the benefits of the new product.					
27 The new product required a major learning effort by customers.					
28 Managers have a long term commitment to developing new products.					
29 The technology (R&D) required to develop the product was totally new to us.					
30 Our distribution resources were more than adequate and compatible for this product.					
31 Our company's production technology skills were more than adequate for the development of this product.					

SECTION 4: PROFICIENCY OF DEVELOPMENT OF FAILED PRODUCT

We are interested in your opinion of the degree of **EFFICIENCY** with which each development activity was carried out for your failed product. Note that not all new products go through all of the development activities, in such a case please tick the NOT USED (NU) box. For the rest please tick a number from 1 to 5 that best represents the amount by which you agree your firm efficiently carried out the development task.

Q14 PROFICIENCY OF DEVELOPMENT	DEGREE OF AGREEMENT None				Complete	*not used*
1 Early in the development process a clear product definition was prepared.	1	2	3	4	5	NU
2 The first review of the venture was a screening of the product idea.	1	2	3	4	5	NU
3 Adequate preliminary assessment of the market for the product idea occurred before any development.	1	2	3	4	5	NU
4 For this product, our firm carried out a detailed formal study of the market on a consistent basis.	1	2	3	4	5	NU
5 We did not perform a pilot test with customers.	1	2	3	4	5	NU
6 We knew the customer's buying behaviour - the who, what, when, where of the purchase.	1	2	3	4	5	NU
7 We relied mainly on the sales force and customers' complaints as an indication of needs of the market.	1	2	3	4	5	NU
8 The project specifications - exactly what the product should be - were very clear from the beginning of the project.	1	2	3	4	5	NU
9 Objectives and plans were formalized in writing.	1	2	3	4	5	NU
10 Firm drew up a new product charter between the main departments so as to outline long term plans and objectives.	1	2	3	4	5	NU
11 Step-by-step game plan for this product's development was drawn up in the beginning.	1	2	3	4	5	NU
12 We had no need for formal plans, ad hoc plans for this sort of product in the past had been sufficient.	1	2	3	4	5	NU
13 We conducted a detailed financial analysis to determine the financial viability of the product project.	1	2	3	4	5	NU
14 We conducted a thorough pre-commercialisation business analysis following product development, but prior to full scale launch.	1	2	3	4	5	NU
15 The technical aspects - exactly how the technical problems would be solved - were not very clear from the beginning.	1	2	3	4	5	NU
16 Our advertising, promotion and communication effort turned out to be very well targeted - at the right customers.	1	2	3	4	5	NU
17 Our product facilities were geared up and ready to work smoothly for the product launch.	1	2	3	4	5	NU
18 The project could not be tried on a small scale - it would have required a major investment.	1	2	3	4	5	NU
19 We did not consider it necessary to conduct a specific and detailed study to predict post launch conditions.	1	2	3	4	5	NU
20 We found the post launch evaluation to be very accurate.	1	2	3	4	5	NU
21 Management did a good job of marketing the new product to front-line staff.	1	2	3	4	5	NU

Thank you for your valuable time and effort.
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Please return before **November 30th** 1997
64 B or Fax: (011) 339 7385.
Would you like to receive an executive summary of the results | Y | N |

Q8: Do you have a database of existing customers ?

	Y (1)	N (2)
IF YES : a) Do you use this client database when selling existing products?	Y (1)	N (2)
b) Did you test the idea of your new product on this existing client data base?	Y (1)	N (2)
c) Do you use this client database when selling your new product?	Y (1)	N (2)

Q9: The **FAILED** product you have chosen for this questionnaire may adequately be described as..
(tick applicable boxes ☑ ☑)

A "Me too product" (not really new but very similar to competing brand) ☐ (1)
Adaptive or revision improvement (enhancement of an existing product) ☐ (2)
Product improvement (substantial form or function difference, it makes existing products in category old) ☐ (3)
New line extension (includes new product that supplement a firm's established line) ☐ (4)
New to firm line extension (firm has not previously offered this product to one of its markets) ☐ (5)
Real invention..... ☐ (6)

Q10: To adequately classify your product we need to understand certain of its characteristics. On a scale from "strongly disagree" to "strongly agree", please tick the box that best describes your firm's attitude to the following statements (tick one ☑ per statement).

Q10 STATEMENTS	Strongly disagree 1	Disagree 2	Neither disagree or agree 3	Agree 4	Strongly agree 5
1 We view it as a high risk one to our firm.					
2 From the firm's perspective, it was a very high technological product.					
3 It sold for a relatively high price in comparison to similar services.					
4 It was a custom product, as opposed to a standard one.					
5 It required less adaptation by the users than competitors' offerings.					
6 It is very intangible and is not connected to *any* physical products/ facilities owned by a client.					
7 For this failed product, front line personnel were expected to be experts or professionals who performed important judgmental tasks.					
8 It was a defensive introduction to maintain our market share in this market as opposed to gaining market share or new customers.					

SECTION 2: PERFORMANCE MEASURES

Q11: What is the estimated domestic market share of your product 3 years (or less) after launch?

less 1% 1	1-5% 2	6-20% 3	21-40% 4	41-60% 5	61-80% 6	81-100% 7

Q12: It is possible to measure a product's performance from a number of different viewpoints. With regard to the degree of success, be it high success or low success (failure), please indicate on a scale of one to five, how you feel your new product has performed according to these different measures. If your firm chose not to measure the product in the way escribed please tick box marked NU (not used).

Q12 PERFORMANCE STATEMENTS	DEGREE OF SUCCESS Low				High	not used
1 Sales growth: the degree of rand sales relative to the firm's other recent new product introductions in the last three years.	1	2	3	4	5	NU
2 Sales objectives: the degree to which your new product has been successful in meeting corporate sales objectives per unit sold/ transactions completed.	1	2	3	4	5	NU
3 Profit objectives: extent to which profits exceeded profit objectives.	1	2	3	4	5	NU
4 The degree to which your new product provided opportunities for cost efficiency.	1	2	3	4	5	NU
5 The degree to which your new product improved sales of your other products.	1	2	3	4	5	NU
6 The degree to which your new product opened up other new markets.	1	2	3	4	5	NU

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