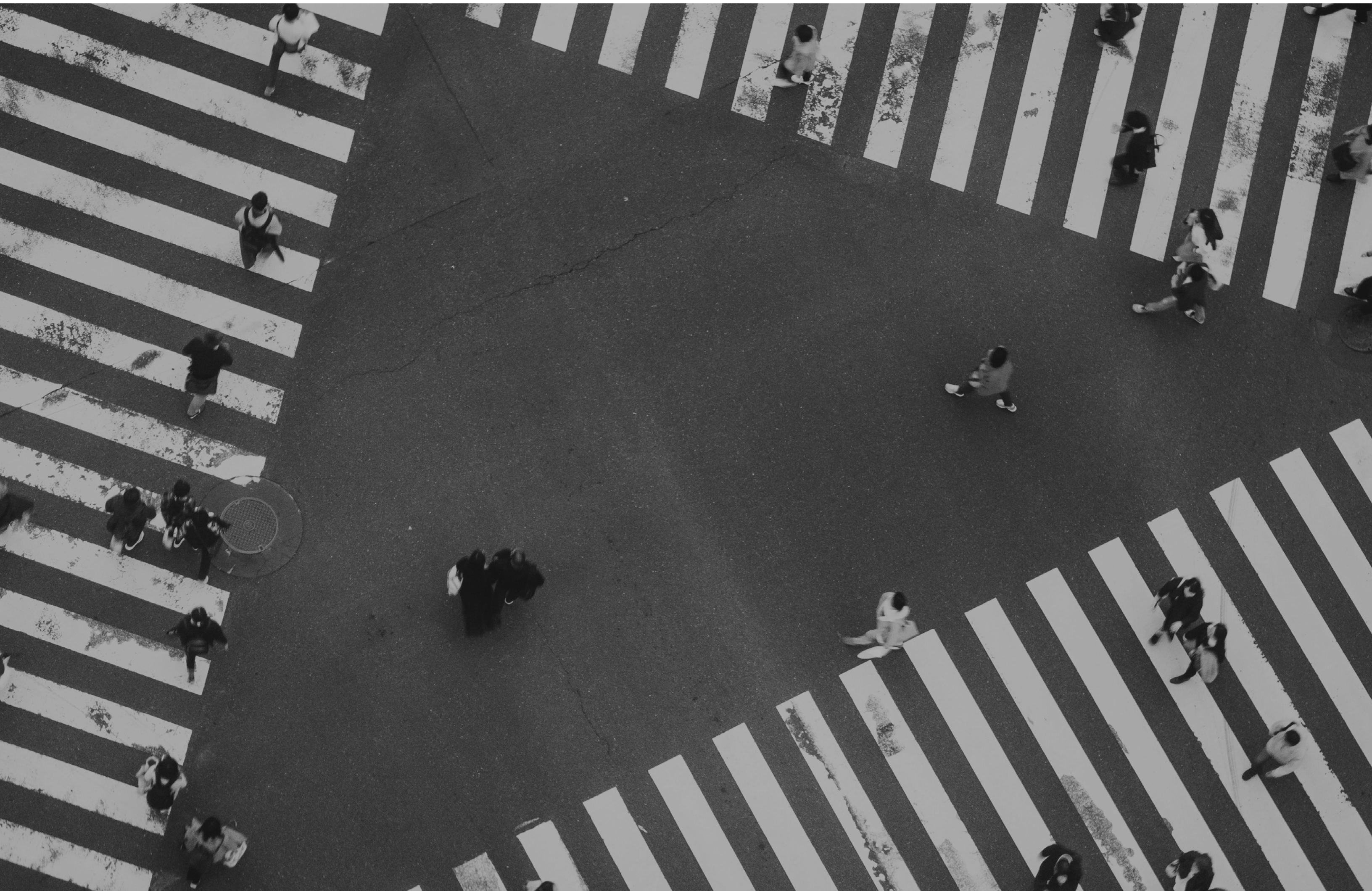
CAPCO

# REDEFINING THE ROLE OF PRODUCT

## APPLYING MODERN PRODUCT DEVELOPMENT TECHNIQUES TO FINANCIAL INSTITUTIONS



# INTRODUCTION

In an era of dramatic market disruption, global adversity, and growing consumer expectations, the traditional product development organization faces an existential challenge: adapt quickly to meet global modern delivery standards or face systemic growth and profitability headwinds. Industries from traditional consumer retail to aviation to healthcare are finding a new paradigm where the ability to build individualized relationships with their customers through unique product offerings tailored to the customer's needs drives growth. Financial institutions (FIs) are not exempt from this evolving dynamic but face a unique challenge related to modernizing their product development and support capabilities.

In this current hyper-competitive era, pre-developed solutions are critical to helping firms quickly and efficiently grow their business. However, modern product organizations are beginning to recognize and exploit opportunities created by meeting the demand for customized, user-focused solutions. The organizational ability to balance the need for a robust set of foundational capabilities, customized product solution development, and delivery underpins modern product development. A product development operating culture allows organizations to re-orient focus to the customers – or end-users – to continuously present solutions and value.

This paper will address the challenges of developing products in the financial services industry and present a clear path for FIs to fully embrace a customer-centric, product development operating culture.

# PRODUCT DEVELOPMENT IN FINANCIAL INSTITUTIONS

Financial institutions (FIs) face a unique set of challenges in adopting modern product development techniques due to the competitive nature of the industry, intense regulatory oversight, and evolving customer expectations. Considering these constraints, the foundation of product development in the financial services industry looks and feels different than a traditional technology or consumer products organization. These differences manifest themselves across three primary dimensions:

1. The role of 'products' in the FIs organizational culture

2. Operating model and organization structure conflicts

3. Product development processes and infrastructure

In a modern FI, where technology is rapidly becoming the business, it is important to understand and rally around a product's shared definition. Effective product organizations view products as a set of business outcomes that deliver solutions to meet the needs of end-users, not as physical entities or objects. Using this definition, a product could just as easily be a year-end performance evaluation process owned by the firm's human resources department or a complex commercial lending product owned by a line of business. In either instance, the important attributes of the 'product' are that it creates a series of business outcomes, or capabilities, to deliver value to the end-user. End-users may include invididual consumers, business cutomers, and employees.

To embrace a product culture, they must think more broadly about both the definition of a product as well as the end-users who consume those products. For example, Facebook's end-users are any person or entity that pays for an advertisement on Facebook's platform as well as are every individual that creates an account, and Facebook employees who use back office systems. In each new problem or opportunity organizations tackle, they must determine which end-user they are serving to ensure the organization centers solutioning around the correct party or parites.

The inability to truly empower product owners and teams is a major hurdle most FIs face due to legacy organization structure and operating models. The natural silos created by artificially segregating business from technology, client segment from a line of business, or sales from operations, place barriers between creating semi-autonomous product teams and organizations that can simultaneously define the right thing to build and build the thing right. Embracing a product culture does not necessitate a top to bottom redesign of the firm's organizational structure. Still, It does require individuals to adopt new roles and responsibilities, and the enterprise to adapt to new communication, engagement, and delivery models.

In his book, 'Inspired[1],' Marty Cagan argues the best product teams embrace a concept of continuous discovery and continuous delivery. In the financial services industry, delivering a product to market requires considerable time and capital due to regulatory scrutiny and financial risks. To this end, we want to draw a clear and early distinction in some common product development vernacular. To many, the minimum viable product (MVP) is a holistic product that can be delivered to the market and represents the bare minimum functionality required to satisfy the customer needs. This creates a hazard for new product teams as they spend months building what they believe to be an MVP while losing sight of the actual value an MVP represents – continuous discovery. To clarify, an MVP is not a product but rather a prototype.

1. Cagan, Marty. Inspired: How to Create Tech Products Customers Love. 2nd Ed., Wiley 2018

Leading product organizations such as Zappos, Apple, and Airbnb understand the difference between a minimum viable product – or prototype – and a market viable product – or holistic product – that can be taken to market. Once this distinction is made, product teams can divide their time between continuous discovery (prototyping new ideas, testing concepts, and engaging end-users), and continuous delivery (implementing the learnings from discovery into their market viable product).

We have identified five key attributes that have enabled product teams to thrive. These attributes help organizations develop market-leading reputations for solution innovation, customer satisfaction, and product quality.

1. Redefine the role of 'products' in the organization

2. Modernize the organization's investment management processes

3. Embrace a lean startup mentality at scale

4. Build employee buy-in through engaged leadership

5. Prevent addiction to prescription that prioritizes process over outcomes

In the following sections, we will look at the five key elements of a successful product organization and define how FIs can leverage the learnings to create their own, unique product culture.

# FIVE ELEMENTS OF A SUCCESSFUL PRODUCT ORGANIZATION

Before any organization undertakes a transformative effort, it is critical to understand the target and the intended benefits. In other words, you must understand the 'why' before you sit down to define the 'what' and the 'how.'

Once your organization has determined it's north star and is ready to begin planning its transformation, tit's time to assemble a tailored, individualized plan to drive the product outcomes and capabilities necessary to achieve it. The following sections deep dive into individual elements of a transformation roadmap that your FI can leverage to build a modern product culture.

# REDEFINE THE ROLE OF "PRODUCTS" IN THE ORGANIZATION

The first step in any effective transformation is to build a common understanding of the basic terms and objectives. When FIs consider what it means to be a product organization, they must answer the question, "What is a product?" Tangible products like iPhones and computers probably come to mind. In a financial services setting, we typically think of things like credit cards, lending vehicles, or investment products. But what about applications like Airbnb, Uber, or our new best friend, Zoom? Their applications are also products. They are service-based products that focus on connecting users and providing users with a specific experience, e.g., safe/inexpensive places to stay, trustworthy/immediate transportation, reliable/scalable meeting platform. These examples demonstrate that we must revise our initial view of the word product to include services and other intangible products.

We define a product as a set of business outcomes that deliver solutions to end-user needs and create value for the organization. For example, Zappos is a noted e-commerce business that sells shoes and other apparel, but they are also famous for delivering exceptional customer service. Zappos, customer service – not the shoes or apparel they sell – is the product that drives customer loyalty and, in turn, creates the environment to grow sales of physical goods. Zappos leadership created an environment where customer service, order processing, shipping, and other back-end services are considered equal to the physical goods they sell. Through this innovative approach, Zappos fosters a product culture that encourages ownership, development of deep domain expertise, and increased employee loyalty.

*"Service is a byproduct of culture," says former Zappos CFO Alfred Lin, as are things like supplier behavior and employee turnover. In 2005, when the company's call center moved from the Bay Area to Las Vegas, an astonishing 80 percent of its California employees relocated--for a $13-an-hour job. In 2008, a year in which the average turnover at call centers was 150 percent, turnover at Zappos was 39 percent (including turnover owing to promotions)."*

This example clearly demonstrates that when an organization embraces a more holistic and inclusive definition of product, it empowers teams and creates a thriving workforce.

The second element of a product's definition is that the outcomes deliver solutions to end-users and create value for the organization. Every product's development and deployment should be preceded by understanding how that product – or business outcome – will solve a known customer problem and create value for the organization. While these are simply hypotheses in the early stages of product development, the best product teams continuously test their product against those assumptions to validate the value propositions. Product concepts that are not meeting the value proposition are quickly pivoted away from, and resources are reallocated to other product ideas. The following section explores how the most successful product organizations identify and invest in value-adding products while rapidly identifying and divesting products or capabilities that will not achieve market fit.

## Key take away

FIs should convene a cross-functional team representing operations, sales, servicing, technology, and business to craft a consistent definition of a 'product' to ensure more advanced concepts and techniques are built from a strong foundation of common understanding and purpose.

# MODERNIZE INVESTMENT MANAGEMENT CAPABILITIES

Once an organization has defined 'what' a product is and its role in the organizational structure, it must define repeatable and scalable methods for managing and tracking investment in those products. With a more holistic product definition, FIs must consider the impact on enterprise budget development and strategic planning. Generally speaking, the best product organizations shift authority to allocate and commit funding as close to the end-user as is reasonable. The reason for this shift is the assumption that those closest to the customer will have a better understanding of the current market dynamics and end-user needs. It also affords more flexibility to continuously evaluate and rapidly pivot when they identify an investment that may not be yielding the expected returns.

By definition, every product that progressed through the full development lifecycle and is released into production should achieve a 'market fit.' Cagan defines market fit as a scenario when at least 40 percent of end-users would view the removal of the product negatively. While this is a subjective definition, it implies that a product must progress significantly through the development lifecycle before the market fit can be achieved and validated. There are ample opportunities for product teams to evaluate their investment during the product discovery and development process. Aligning the enterprise budgeting and planning to the product development lifecycle in a way that offers opportunities to evaluate and potentially pivot continuously is a critical element to any successful product organization's investment management capability.

Successful product organizations can differentiate enterprise-level goals and objectives from product-level performance metrics. Senior leadership can influence, guide, and ultimately govern investment decisions at lower levels of the organization by setting what is commonly referred to as 'Themes' for the broader enterprise. Themes are measurable, quantifiable objectives that do not necessarily apply to a single line of business or technology capability. Examples include the improvement of Net Promoter Scores, reduced cost of customer acquisition, increased wallet share, and profit margin growth. These themes set the tone for how product funding decisions are made at lower levels in the organization. In contrast, product-level performance metrics are specific to the product or service being created. These metrics include revenue growth, reduced servicing costs, and increased operating efficiency."remove ",among others. The ability for organizations to monitor and evaluate performance along both dimensions provides the autonomy and flexibility for product teams to continuously innovate and deliver products that both respond to market demands and create value for the organization.

Ultimately, there are three key components to a modern and product-oriented investment management capability.

1. **Organizational Structure Realignment** – Creating an organizational structure aligned to value creation and end-to-end business capabilities will enable semi-autonomous teams to drive decision making and product development strategy in alignment with enterprise objectives. There are many different frameworks established through different agile delivery models, but the most common include the creation of portfolios, value streams, teams of teams, and teams in a vertical orientation with the budget being distributed to the portfolios and then distributed downward to the value streams for allocation and execution.

2. **Holistic Product Development Lifecycle** – Establishing an end-to-end product development lifecycle that considers innovation activities, product discovery and development, production deployment, and product support creates opportunities for ongoing investment monitoring and evaluation. As product ideas and hypotheses are proven

to deliver against their value propositions, funding can continue to be committed. Conversely, when ideas or concepts fail to satisfy a customer need or create value for the customer – both are required to achieve market fit – the funding can be redirected, or the team can pivot to a different product or service. Many enterprise agile frameworks have suggested lifecycles that can be tailored to fit individual organizations.

3. **Enterprise Monitoring and Performance Metrics**
   Differentiating enterprise-level objectives and goals from product-level performance metrics will guide funding decisions within the portfolios or value streams. Senior leadership's clear guidance and direction with respect to enterprise goals is a critical component to creating and empowering semi-autonomous product teams. While product-level metrics should be continuously refined, the enterprise-level themes guiding the long-term planning should be revisited annually to ensure targets are kept consistent with the organization's strategic vision.

### Key take away

Aligning funding and budgeting authority with the product development lifecycle and organizational model will improve an FIs ability to remain flexible and responsive to changing market dynamics. Achieving a modern investment management capability requires some hierarchical changes and necessitates effective enterprise strategic planning. These steps ensure that portfolios and business lines remain aligned with enterprise-level goals and objectives.

## EMBRACE A LEAN STARTUP MENTALITY AT SCALE

One challenge many large scale FIs encounter when discovering and developing new products is the complexity created by corporate bureaucracy and policies. The best product organizations have identified how to empower product teams within a strong and effective governance framework. One of the most common frameworks relies on applying Lean Startup principles that prioritize customer feedback, fast-paced design, and team level autonomy to create an environment where ideas can fail fast and be revised faster. As Eric Reis[2] states, "a startup is a human institution designed to create a new product or service under conditions of extreme uncertainty." In the absence of traditional management structures and processes, startups rely on a different set of techniques to continuously test and refine their product vision.

These tools and techniques can break the logjam of corporate bureaucracy and often onerous oversight when applied to product teams at established FIs. The three main pillars of this methodology include:

1. Maintain multiple hypotheses and end-user value propositions simultaneously to test, rapidly validate, and refine the business model

2. Seek direct end-user feedback at the beginning of discovery, throughout development, and following the release of any new product or service

2. http://theleanstartup.com/principles

3. Embrace an agile delivery model to rapidly develop a 'minimum viable prototype' to ensure the team is building the right thing

The guiding theory behind any successful startup is to maximize the amount of work not done. This ensures teams are focused on building the right things, continuously engaging customers to support rapid pivots, and eliminating non-value adding activities. Many large-scale organizations started from this position but have come to rely on burdensome, intrusive, and slow governance processes to drive delivery of new products and services and find it challenging to revert to a startup mentality.

Google, Amazon, and Zappos have successfully integrated the Lean Startup methodology into their corporate cultures. Zappos, for example, incentivizes employees to create new business opportunities with giving employees a forum to build their ideas in their '48-Hour Founders' program. This program provides employees a forum to build their ideas, and includes coaching, mentoring, and education sessions. Competition between Zappos product groups mimics that of startups seeking funding. Here, management is transformed into venture capitalists who allocate $5,000 of seed funding to the product team with the best pitch.

The adoption and implementation of Lean Startup principles can be difficult for many organizations. Here are five pragmatic steps to begin embracing the core constructs of Lean[3]:

1. **Entrepreneurs are Everywhere** – Foster the entrepreneurial spirit of front-line workers who are engaged with customers daily by empowering them to generate new ideas and business opportunities. Give them avenues to interact directly with the product teams and enable and incentivize teams to experiment rapidly on those ideas.

2. **Entrepreneurship is Management** – Recognize that traditional ways of managing teams may not work in a Lean environment. Be open to the idea of the product teams not just experimenting and creating new products and services, but also creating the mechanisms by which to manage rapid experimentation and product development. Cultural and hierarchical changes may be necessary to support truly 'lean' product teams.

3. **Validate Learning** – Deploy resources that come from the organization's scale to create controlled environments to test innovative products and services, and validate learnings before rolling out to a production setting. Recognize the value of the minimum viable prototype in the overall lifecycle of delivering a market viable product and support semi-autonomous teams with the resources to test and learn rapidly.

4. **Account for Innovation** – Remap traditional career tracks to incentivize, recognize, and reward innovation that leads to the delivery of value-adding products and services. Encourage experimentation and innovation by including it in individual job descriptions, and eliminate the false expectation that producing a failed experiment is a negative indication of performance.

5. **Build – Measure – Learn** – Embrace a modern agile delivery methodology that creates the capacity and self-reinforcement to continuously discover and continuously deliver innovation within the enterprise. Define appropriate metrics for evaluating product team performance and frequently engage end-users to validate performance against those metrics.

## Key take away

Even large organizations and global FIs can adopt Lean Startup principles. This does not require the complete elimination or abandonment of the scale and governance built over time. FIs should seek to create clear pathways to enable continuous discovery and continuous delivery of new products, product features, and services.

3. https://www.bmc.com/blogs/lean-startup-enterprise/

# BUILD EMPLOYEE BUY-IN THROUGH ENGAGED LEADERSHIP

Across industries, organizations struggle to gain buy-in from employees to support new ways of working, new role expectations, and corporate culture changes. In addition to what was described above, leveraging Lean Startup principles helps drive employee buy-in by creating a highly engaged, accessible leadership culture.

There are two pillars of creating and fostering employee buy-in and a modern product culture:

1. a vision for the product development function
2. creating a culture of accessibility, engagement, and idea meritocracy

## A vision for the product development function

In the initial stages of developing a modern product organization, it is critical for leadership to develop and articulate a clear vision for the organization's product and product teams' role. This could mean restructuring teams and management to better enable the adoption of Lean Startup principles. It could also mean making hierarchical changes to align better product decision making, discovery, and development to teams directly adjacent to the end-users. Leadership must support this vision by committing monetary and employee resources needed to build and operate the new product development model. Many organizations falter in building employee buy-in when the leadership defines a vision, but then fails to commit the intellectual and fiscal resources required to bring it to fruition.

Another critical element of the product development vision is understanding how the product development lifecycle will function and how different teams around the organization will engage with that lifecycle. When firms embrace modern product development driven by end-user needs, they must create opportunities to engage customer and end user-facing teams earlier in the development process. Teams traditionally left towards the end of the development process (QA, finance, deployment operations, and customer service) should also be brought forward to reduce the number of stops along the product's journey to production. This vision will be informed by the Lean Start-up principles discussed above. It will manifest itself through the delivery processes, roles and responsibilities, and infrastructure of a modern product organization.

## Creating a culture of accessibility, engagement, and idea meritocracy

The second element of building employee buy-in is a strong culture of engaged leadership and an idea of meritocracy. Asking employees to bring forward ideas that might fail during product discovery requires trust in leadership. Trust is earned when employees are rewarded and incentivized for their ideas, not chastised for failing to bring ideas to market. An engaged and accessible leadership team provides ample opportunities for employees to see the 'client needs first, solutions second' model of product development. Empathy and end-user-centricity are skills learned and cultivated by watching. Leaders need to be present and engaged to demonstrate the shift away from a culture hyper-focused on risk avoidance and immediate accuracy.

*"At my last job, I was afraid to be anything: right, wrong, smarter, dumber . . . At Zappos, being yourself is the best thing you can do," one employee said of Zappos' work environment. Employee empowerment does not mean promoting perfection, but instead reducing barriers to innovation and allowing teams to fail fast and learn to improve the overall organization. Promoting agency and employee ownership of products inherently increases employee buy-in to the organization's success and improves employee retention in the long-run.*

### Key take away

FIs can drive customer satisfaction and retention by focusing on building employee buy-in and creating a culture that incentivizes and rewards highly successful product teams' behaviors and traits. An engaged, visible, and accessible leadership team is the lynchpin to modern product organizations.

## PREVENT ADDICTION TO PRESCRIPTION

The ever-present, watchful eye of the enterprise program management office is a hallmark of many large FIs. Strict adherence to prescribed methodologies has – in many cases – become a substitute for measuring program success due to the regulatory scrutiny and risk management policies inherent to the financial services industry. Often to the detriment of product teams, enterprise project management standards and policies are conflated with product development processes. This situation presents the teams with an impossible choice: Should they focus on innovating and quickly testing different hypotheses to validate new product ideas? Or should they slow their pace to ensure documentation standards, governance forums, and tollgate approvals are achieved in due order? By forcing teams into the latter, organizations create an addiction to prescription that precludes teams from achieving the former.

Modern product organizations have defined mechanisms for ensuring compliance with key regulatory and risk management policies without burdening product teams with cumbersome and overly prescriptive delivery processes. The key to this success can be found in balancing process requirements with role accountability, tooling and automation, and right-sized governance. Said differently, instead of relying on a strictly defined process, the most successful product organizations train and mentor people across individual roles on the product teams. This approach ensures appropriate outcomes, provides those resources with the tools to automate and streamline many documentation and governance processes, and builds an operating cadence that vertically orients communication. These things help information flow logically from one level to the next with clearly defined decision making and escalation thresholds.

Google has pioneered three ideas that have enabled its product teams to thrive in a fast-paced and highly competitive technology market. The first is the notion of a permanent beta, which means unfinished products and services are launched to customers to encourage feedback and create expectations of continuous improvement. The second is building innovation time, deliverables, and documentation into the product development process. Finally, they have eliminated the traditional software development lifecycle (requirements, design, build, test) with its traditional stage-gate approval process, and replaced it with an iterative framework that focuses on innovation periods followed by solution development supported by a tool configured to those specific activities. In this model, documentation and governance approvals have become a digital byproduct of the product development lifecycle instead of a driving element of the project team's plan. While these exact constructs may not be suitable for all organizations, it shows that a flexible approach to creating process frameworks, product development standards, and delivery tools can encourage accountability and ownership.

After a review of many successful product organizations, we have distilled the following activities and best practices to help FIs achieve their own, unique end-state:

- **Performance Metrics and Objectives and Key Results (OKRs)** – Differentiate performance metrics into two key buckets:
    1) product team and delivery performance
    2) product and line of business performance

  The first category should be defined at the enterprise level and correspond with expectations of specific roles within the teams, compliance with risk and regulatory requirements, product quality, and innovation goals. The second category should be defined at the product team or line of business level to help validate and track the product's business impacts.

- **Enterprise Delivery Framework and Tooling Configuration** – In order to achieve the scalability, consistency, and pace of a successful product organization, a streamlined enterprise delivery framework supported by digital delivery tools should be implemented. This framework should highlight the required outcomes of the delivery lifecycle and provide automation or tooling support to enable the real-time production of documentation and communication artifacts.

- **Role Mentoring and Coaching** – FIs must commit to investing in role mentoring and coaching to afford individual resources opportunities to continuously improve their skills and understanding of the enterprise model. Role accountability and employee retention increases dramatically when employees feel they are supported with the right training and coaching opportunities.

## Key take away

FIs should seek to retool their historical program management organizations to support value delivery and streamline the documentation and governance standards. Shifting focus away from blind adherence to process and towards effective execution of product development frameworks supported by digital delivery tools can significantly improve team and project performance against business metrics.

## Conclusion

During a time of unprecedented change and competitive threats, financial institutions are rapidly learning lessons regarding product development that took other industries decades to adopt. These lessons provide opportunities to accelerate the pace of product development while building a thriving and engaged workforce. The five key attributes of the most successful product organizations demonstrate how FIs can build a modern product culture that meets the demand for customized, user-focused solutions and grows the business.

While every organization is unique with its own blend of processes, culture, and hierarchy, common practices can be tailored to apply broadly across the financial services industry. FIs with clear, strategic alignment across these five elements will enjoy a much stronger success rate in their journey to build a modern product development capability.

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