PRODUCT DEVELOPMENT PROCESS

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PRODUCT

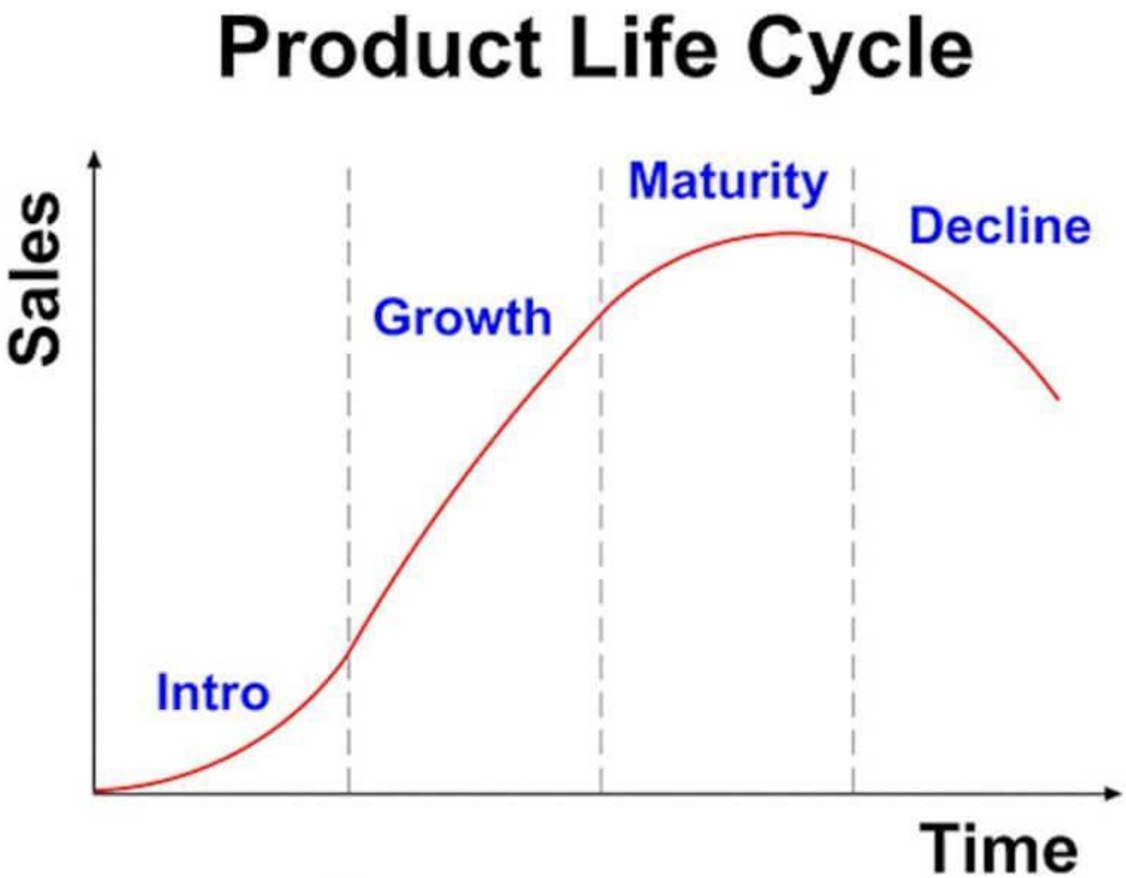
According to **Theodre Levitt** "Products are almost always combinations of the tangible and the intangible------To the potential buyer, a product is a complex cluster of value satisfactions....... A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs. All else is derivate"

A bank product can be defined as

"Anything that has the capacity to provide the satisfaction, use and return desired by the customer

PRODUCT LIFE CYCLE

There are various stages in the life of the product. The product after development goes through different stages in its sales journey and in each stage, the impact on sales will be different. The product life cycle journey is illustrated in the following diagram.



I. The first stage is the **'introduction'** stage when the product is introduced. When a product is introduced, the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it. In the introduction stage it happens because it takes time for the product to occupy the minds of the customers.

II. In the **'growth stage, which is the second stage** in the product life cycle, the sales volume of the product picks up and the product is likely to break even and start generating profits for the organisation. During this period the consumer awareness of the product will be more and that will result in growth.

III. In the third stage which is the **'maturity' stage,** there is more growth and sales volume peaks. there is a wide customer base which will result in maximisation of sales with inflow of business and profits. In the fourth stage, which is the 'staleness' stage or "saturation' stage, because of competition and better products available from the competitors, staleness will creep in, which will result in saturation of sales. Here the business and profits stagnate, customer develop a tendency of indifference to the product.

IV. **the final stage** of the product life cycle called as **"decline stage'**. In this stage, the product becomes less attractive for the consumers due to various reasons and results in drop in sales volume and profits. This stage if not attended properly will lead to product death. This can be avoided by fine tuning and value adding to revitalise the product for continued acceptance.

Some important aspects

- These stages of product life cycle are very important for banks in product development. Banks should aim for keeping the product in the maturity stage as long as possible, so that business and profit
- maximisation happens continuously.
- And another important point is that product life cycle is different
- for different products. But it is not always a must that a product should travel through the product life cycle process.
- Some products will have an instant death immediately after introduction phase.
- This may happen due to wrong approach towards marketing research and consumer perceptions.

- In some case, there will be immediate spurt to the growth and maturity phase in a very short period and will stay there in the maturity period for a very long time.
- The success of these phases depends on proper approach by the marketer towards packaging strategies and repositioning strategies, so that the products stay in the maturity phase for quite a long period to occupy a permanent place in the perceptual need map of the consumers. In the same way, product obsolescence often contributes to the premature death of products even after effective market research.
- **In the case of computer products, the product life cycle will be very short because of fast changing technologies.**
- This results into a high degree of product obsolescence.
- In the banking scenario the product life cycle depends on whether the product is a core product or augmented product.

Core products

- Core products are essentially those products which define what kind of business.
- In the banking scenario, some of the core products are Savings Bank, Current Account Term Deposit, Recurring Deposit, Cash Credit, Overdraft, Retail Loans, Term Loan, Drafts etc.
- These core products are essential products and need not have a strong marketing content.
- These products will have a stable life in the growth stage of product life cycle, because they are indispensable for the different segments of customers.

Augmented products

- Augmented products are products which are developed from formal products by combining two core products and adding value to the product in terms of benefits and comforts to the customer. The augmented product when availed by the customer will result in some value addition to the customer.
- The concept of augmented product had changed over the years and will continue to change. A decade back, offering an ATM Card was considered as a value addition to enable the customer to withdraw money 24 hours. But the implementation of technology initiatives aggressively by banks in the past decade had made ATM/Debit Card as a part of the core product.
- The penetration of Internet Banking and Mobile Banking has changed the concept of core and augmented products. In the present-day scenario, a core Savings bank will include an ATM/Debit Card and a Cheque Book and augmented product will include Internet Banking, Mobile Banking and a group health or life insurance product tagged to it.

The different types of products normally marketed by banks. Products can be broadly classified into following:

I. Deposit Products or Liability Products
II. Asset Products or Retail Credit Products
III. Other Products and Services.

DEPOSIT PRODUCTS In the deposit products category, the deposit products can be classified into Savings Deposits, Current Deposits, Term Deposits and Combination Deposits.

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Savings Deposits are offered mainly as a simple product for inculcating the habit of savings and routing the Savings transactions in that account.

I. Its features include free deposit and withdrawal of money by cash and by cheques. It gives absolute flexibility for the customer to operate his account and price is kept at a low level.
II. In addition, for augmenting the product and as a value addition to the
III. customers, some banks are offering group life cover and/or group health cover at a very attractive price as compared to a stand-alone cover.

Current Deposits are offered mainly for carrying out business and trade transactions.

I. There is absolute freedom for withdrawal and deposit of trade/business related transactions and service charges are charged for this depending on the volume of transactions.
II. No interest will be paid for the deposit amounts. This is a 'no cost deposit for the banks. Some banks are offering a tagged Life cover or health cover or both.
III. The core nature of the product has undergone change.

Term Deposits are offered to the customers as a high interest yielding product for the deposit held with the bank for a definite period with interest depending upon the period of deposit.

I. There are different types of term deposits offered by banks with facility for getting monthly quarterly interest as well as deposits with cumulative interest at the end of the deposit period.

II. The second option benefits the customer because the quarterly interest accrued on the deposit is reinvested again to earn a higher yield for the depositor.
III. Another type of term deposits is the 'Recurring Deposit' where the depositor is required to deposit fixed sums of money every month for a specific period and at the end of the period, the principal along with the accrued interest are paid back to the depositor.
IV. The advantage of Recurring Deposit is term deposit interest rates for the specified period are offered for this deposit also.
V. It helps the monthly income segment to save regularly a fixed amount and earn higher rates of interest applicable to term deposits.
VI. As an additional product extension of Recurring Deposits some banks also offer more than one option regarding the quantum of monthly deposit, the flexibility of paying the instalments in bunch and also combination of both.
VII. This will attract business from the segments which do not have regular periodic cash inflows but want to save regularly and earn higher interest.
VIII. The fourth important type of bank deposit is the combination deposit. The principal aim of the bank marketer is customer need/comfort maximisation and banks innovate in product development and satisfy the customer by offering a combination of two types of deposits, as a single term deposit.

<u>For example</u>

- A product is offered in this type in which the customer will have option of putting separate amounts at his will and pleasure. A passbook will be issued for the same. Each of his remittances will be treated as a separate term deposit and interest will be given on a cumulative basis depending on the period of deposit.

- In another product, the deposit will be kept in multiples of Rs.1000 in term deposit and when there is an urgent need for some money, they can withdraw part of the deposit in multiples of Rs.1000 and the remaining amount continues to earn the same rate of interest. Different banks offer these products in different names like Flexi Deposit Account, Multiple Deposit Account etc.

Opening of Deposit Accounts and KYC Norms

Deposits are the core resources on which the edifice of retail banking is built. mobilisation of resources assumes great significance. CASA resources help the banks to bring down the cost of resources and increase the customer base, term deposits bring stability to the resources mobilisation and help the banks to expand the retail asset base with relevant pricing models. In this context, banks go all out to mobilise deposits through different marketing strategies.

Methods for opening of accounts in the private and foreign banks

- Different banks adopt different methods for opening of accounts. In most of the private and foreign banks, opening of deposit accounts is done in a centralised liability processing centre.
- The application details and other documents are scanned and forwarded to their centralised processing centres for opening of accounts. Most of the public sector banks (PSBs) have already implemented **Core Banking Solutions** and are technologically at par with their private counterparts.
- In some PSBs, deposit accounts are opened at the branch level itself. A centralised model is adopted in some other banks and partially centralised model is adopted in other banks. In the partially centralised model, account opening and issue of Pass Book happen at the branch level and issue of Cheque Book and Debit Card are done through a centralised approach.

- In a centralised model, based on the details forwarded by the branch, end to end opening of accounts are done centrally. The above procedures apply to opening of Current and Savings Accounts.
- In case of opening of Term Deposits almost all banks do it at the branch level and issue Term Deposit Receipts at the branch itself to the customers.

KYC NORMS

- The bank opening the account should know the background and credentials of the customer.
- Initially an introduction is needed for opening of accounts. Norms are prescribed for documents of proof of identity to be submitted by the applicant like copy of Ration Card, Voters Identity Card, Passport Copy etc.
- Submission of KYC Form is a statutory requirement with the objective of knowing about the customer and his background not only for transaction purposes but also to have a check for money laundering activities. KYC Form also serves as a data base for cross selling other products to the customer.

Know Your Customer Forms (KYC Forms)

- KYC Forms, as said earlier, are required to be obtained from all the account holders while opening the account itself. It is obtained as an Annexure to the Account Opening Form. It throws light on the different dimensions of the customers and helps the banks to deal with them appropriately.

- Based on the information, the branch will record in the from endorsing the identity and genuineness, address verification and risk perception and fix a Risk Level Threshold Limit for the customer.

- The details will be updated on an annual basis. A look at the above details will indicate that the branch would be able to map the entire biographical, professional, social and credit profile of the customer

CREDIT PRODUCTS

- Credit products offered by the bank, again, can be classified into two broad categories, traditional credit schemes and market oriented new credit schemes. Traditional credit products are cash credit accounts
- for business people to fix credit limits and allow them to operate freely within the limits subject to certain stipulations.
- Overdraft scheme is to allow credit for a short period to be adjusted in a very short time.
- Likewise Demand Loans, Term Loans and Bill Finance are credit schemes to meet specific credit requirement of the borrowers in their business for purchase of machinery, equipment and other requirements and against their receivables.
- In the retail side, credit schemes are offered by the banks for specific segments based on the needs of these segments. Home Loans, Personal Loans, Auto Loans and Credit Card Receivables are some of the generic retail credit schemes.

In addition, loans tailored to meet the individual requirements like Loans for Professionals, Doctors, Lawyers are offered by banks. The basic premises for developing niche credit schemes are two dimensional.

I. The first dimension is looking at the customer segment. If the customer segment is in need of a product and the size of the segment is quite large, then customer need satisfaction will be the first objective of the banks.

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II. The second dimension is the business orientation of the bank. If the customer size is justifiable for the product to be developed and marketed and the developed product will generate sufficient volumes and ultimately reward the bank, then the bank will definitely develop and market the product with the proper pricing and features.

OTHER SERVICES

In the other services category, all the services offered by the bank other than the Deposit schemes and Credit schemes can be grouped. Again, it can be further classified into Remittances and other Fee Based Services. In the remittances services, issue of Drafts, Bank Orders/Bankers Cheques, National Electronic Funds Transfers (NEFT), Real Time Gross Settlements (RTGS) are the types of services offered to the customer. The cost of availing these services will depend on the quantum of transactions and the customer's business relationship with the bank.

In other fee-based services, Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer on a periodic basis, Merchant banking services in the area of capital market issue management in the capacity of Lead Manager, Co-Manager to the issues etc., undertaking Portfolio Management Services for their Non-Resident Indian clients to manage their investment portfolio, Consultancy Services for projects in Agriculture and Export Oriented Projects are some of the other services offered by the bank.

Another important product line for the banker in the Other Services' is the non-fund-based business of the banks. In these types of services, the bank will be guaranteeing on behalf of the customer for whom they will be offering these products.

Two examples of non-fund-based business for the banks are:
(i) Letter of Guarantee
(ii) Letter of Credit

- In the Letter of Credit and also in the Letter of guarantee, though at the time of offering these services, there is no fund outlay but at any future time, a liability may arise for the banker to part with the bank's funds. The liability is depending upon the happening or non-happening of certain events as specified in the letter of guarantee. Letter of Guarantee is a guarantee given by the bank on behalf of their customer to a beneficiary, guaranteeing the beneficiary to pay if the customer is not paying or performing.

- Letter of credit is an undertaking from the banker to pay the beneficiary the prescribed amount, subject to production of certain documents as required in the contract between the customer and beneficiary.

OTHER FEE BASED SERVICES - THIRD PARTY DISTRIBUTION

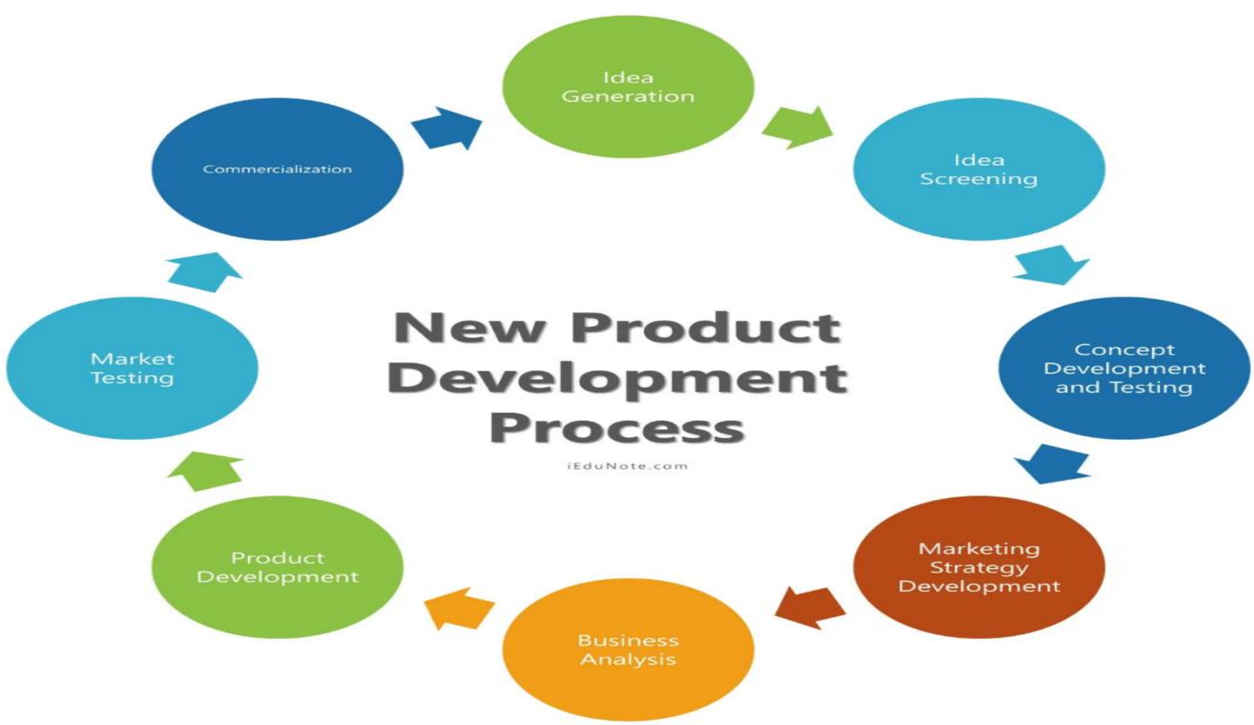
- Another important segment in retail banking which had emerged on the past decade is the third-party distribution model adopted by banks to augment fee-based income.
- Third Party Distribution is an emerging business model of the banks to augment fee-based income by selling products and services of other manufacturers in the financial and investment space like insurance companies - life and non-life and also mutual funds etc.
- These activities are called as para banking activities and Reserve Bank of India has prescribed rules and regulations for carrying out these activities by banks.

NEW PRODUCT DEVELOPMENT

- The success of the marketer will be to correctly identify the existing phase of the product life cycle and by correctly foreseeing the future, has to develop new products to enable the new products to go through the introduction phase and jump to the growth phase when the old product starts its decline phase.
- This will enable the organisation to survive and achieve the business objectives. Thus, a proactive marketer should particularly watch the product life cycle of the product and the present stage of the product.
- New product development is an important area for the marketer to survive and grow.

STAGES IN NEW PRODUCT DEVELOPMENT

A new product development has to pass through several important stages as shown below:



1. Generating new product ideas
2. Idea screening
3. Concept Testing
4. Business analysis and Market analysis
5. Actual product development,
6. test marketing and commercialisation

(i) Generating New Product Ideas

New product ideas are generated from market research based on customer expectations from the existing and potential customers. It is also generated in house from the employees of the banks. The suggestion will be invited both on refining the existing products as well as ideas for new products.

(ii) Idea Screening

With the grouping together of all the ideas generated from various sources, internal and external, the ideas are analysed based on the following approach:
a) Whether there is any felt need for the new product?
b) Is it an improvement of the existing product?
C) Can the existing infrastructure can handle the new product?
d) Is the new product being in our existing line or a new line of business?
The ideas which meet the above questions pass through the screening test.

(iii) Concept Testing

The next stage is the 'concept testing'. The concepts of the new product are tested. The idea here is testing the product concept itself by taking the feedback from the customers about their understanding about the concepts of the product and whether the concepts are attractive enough for them to avail when it is launched to them. This helps the marketer to understand the market response to the 'product concept idea and to know about the customer perception of the product concept.

(iv) Business Analysis and Market Analysis

This stage will decide whether the product is viable from the financial and marketing aspects. This will be based on a cost benefit analysis of the product from the banker's view point and the customer's viewpoint. It will also analyse the expected increase in business, and profits and also the effect on the expansion and retention of customer base. It will also analyse the expected effect on the market share
and also, the expected penetration of markets of the competitors.

(v) Actual Product Development, Test Marketing and Commercialization

I. After passing through the above stages, then the concepts, analysis are internalised and product development takes place from the data generated.
II. The new product developed is first test marketed in a selected market segment and based on the feedback received from the market the product is launched on a full scale to the desired segments.
III. The success of new product development depends on how effectively the various ideas from different sources had to be given importance and how effectively the marketer can convert these ideas into successful products that maximise the business.

CONSTRAINTS IN NEW PRODUCT DEVELOPMENT

Though new product development brings new business opportunities for the banks, there are accompanying constraints also.

The following are some of the constraints:

I. Heterogeneity of the customer base in different branches is one of the external constraints. It would be very difficult to develop a new product to satisfy all the customer segments. The bank while they

II. develop new product, has to take this constraint into account and crystallise the homogeneity among the heterogeneous group and product development had to be attempted.

III. With the technological revolution in its peak, product obsolescence is very fast and so customer preferences would also change drastically. This would have an effect on the product life cycle of the new product which will affect the economics of the product.

IV. The existing product range is another constraint in new product development with most of the public sector banks. With deposit products more than around 20, their product range had become unwieldy. The exercise was more towards product pruning rather than new product development.

V. Sometimes the ideation stage in product development would be attractive. But it would be difficult to convert the idea as a product with business potential. This is again a constraint.

VI. Resistance from the staff for new product development with a view that new products would increase their work load or result in staff pruning/relocation. This attitudinal problem is again a constraint.

PRODUCT MANAGEMENT

Product Evolution

- Product management is one of the important aspects of the marketing strategies of banks.
- Product has undergone great changes over a period from the marketer and the customer's viewpoint.

- The product has been undergoing rapid changes over the period based on the changing needs of the customer and the marketer constantly upgrading the product and enriching the product.
- The marketer, to score over competition over a period had refined the product from its basic features to higher and higher levels to satisfy the customer.

According to Theodre Levitt, product, over a period, evolved on the following lines:

a) The Generic Product
b) The Expected Product
c) The Augmented Product
d) The Potential Product

(i) The Generic Product

The generic product is an unbranded and undifferentiated commodity. Like rice, wheat, bread, cloth. It is a core product. In the banking scenario, some examples of generic products are Savings Banks, Current Account, Term Deposits, Drafts, etc. These are core products in banking. The products get an identity through a 'name' given to a deposit as 'Reinvestment Deposit to give an identity to the product.

(ii) The Expected Product

The expected product represents the customer's minimal purchase condition and what the customer expects from the product. The customer expectations may be different also. For satisfying this, the banker when structuring the product will make these expectations as a part of product structuring and will try to differentiate the product to enjoy the distinction from other similar products. The bank marketer will customise the product accordingly.

For example, in a Savings Bank, customer expectation is to withdraw money at will and also collect his cheques through his account and also wants to keep track of his balances in the account. These expectations are met by incorporating the facility of Pass Book for knowing the current balances, cheque book/withdrawal slips for withdrawing money and collection facilities for collecting cheques of the customer.

(iii) The Augmented Product

The Augmented product is augmenting or enriching the product voluntarily. The augmented product is the result of voluntary improvements brought about by the marketers, in order to enhance the value of the product.

For example

- some banks, as a part of their Savings Bank Account, offers the facility of collecting the cheques of the customer at their doorsteps and offers free collection of cheques.
- Some other banks offer the facility of operating the customer's Savings Bank Account not only from the branch where the customer is maintaining the account but also from any of their branches in India. This type of access to his account from any branch is an augmented feature of the product.

(iv) The Potential Product

Everything that might be done to attract and hold customers is called the potential product. This potential product may be developed based on suggestions, new ideas, redesigning of existing products.

For example: A potential product is availing the service from the site of the customer without going to the bank. In the technology sensitive banking scenario, setting up computer terminals at the customer's site and offering him to bank from his place for retail customers may be a potential product of tomorrow, though it is available today for select corporate customers.

The entire development is focussed in one direction (i.e.) the satisfaction of the customer to the maximum possible extent and by continuously reviewing, redesigning the product from various dimensions. The main aim of the exercise, would be of course achieving business objective through customer satisfaction.

PRODUCT POLICY

- Product policy is one of the main tasks in product management. The marketer should decide what exactly the products to be offered to different segments.
- if the customer base is fairly very large, the product line should be based on the homogenous needs of the heterogeneous customer base and customer segments.
- Otherwise, it will result in unwieldy product range.

a) Appraisal of the product line and individual products
b) Decisions on product differentiation
c) Product positioning
d) Brand decisions
e) Decisions on packaging
f) New Product Development

Appraisal of the product line and individual products

In Appraisal of Product Line and Individual Products, a bank marketer, to be effective, has to constantly review his product line. Changes in the environment, changes in customer preferences, competition in the business are potential threats to the existence of products. Though there may not be much changes still the marketer has to take stock of the potential of the present product line.

For example, in the case of Term Deposit, Product variants in this product are Term Deposit with monthly interest facility, a Deposit with Quarterly Interest facility and a Deposit with cumulative Interest facility. These are product extensions. If the banker simply continues to offer these products, separately, without analysing the business potential and taking stock of the situation which may necessitate phasing out the product, it will have direct negative impact on the business strategies.

Decisions on Product Differentiation

- In the highly competitive field of banking, almost all banks offer products with the features of the product being almost the same. But then how the bank marketer will have an edge over other competitors? For achieving, this marketer has to adopt product differentiation. The efforts of the marketer should be to differentiate his product as far as possible from the competitor's product.
- The differentiation strategies are adopted by differentiating their features, benefits and satisfaction level by doing some value addition to the product.
- For achieving this, a tool available for bank marketers is to highlight the USP of the product. USP is nothing but Unique Selling Proposition' of the product.
- Unique Selling Proposition is the specific feature available with the particular product. Each product will have a 'USp' and the differentiation strategy depends on the highlighting the USP of the product.

Product positioning

a) Customer's mental perception of the products of the banks mainly occupies different positions in their mind, based on the return and liquidity aspects of the deposit. The period of occupation of these products in the mental perception of the customer again is there for a short period depending on the effectiveness of the product.
b) product differentiation and unique selling proposition had made an impact on the positioning strategy of the bank
c) With the environmental changes due to competition, if the positioning is threatened, bank marketers will review the product features and USP's of the product and add value to the product and try to recapture or retain the position. This approach is called as a repositioning strategy.
d) Banks have to constantly review their positioning strategies and evolve repositioning strategies depending on the need and the business realities.

(iv) Product Branding

Product branding is an important area in the bank marketing, though banks try to market themselves, as brands in a competitive market, branding the various products of the banks is a very relevant area for branch marketing. Branding can be a powerful tool for relationship building. The branding efforts of products in "banks begin at the corporate level. Branding exercise for bank products generally involves giving the different products catchy, attractive names for the products according to the features of the product.