

**THE DEVELOPMENT OF NEW PRODUCTS IN THE PERSONAL FINANCIAL
SERVICES SECTOR**

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A B S T R A C T

The development of new products in the personal financial services (PFS) sector is an area that is being increasingly relied upon by organisations to provide competitive differentiation in the highly competitive environment that they now operate within. Despite this reliance, relatively little is known about how new product development (NPD) activity is undertaken within the PFS sector. The literature in this area is inundated with different models and techniques to aid development programmes, but how closely they are followed and implemented in the reality facing personal financial service companies is questionable. The first stage of the research therefore examines the implementation of planned new product development in the sector, in order to highlight the gap between theory and practice, and provide for a more contingent approach to development activities.

The second and third stages of this study are concerned with providing a detailed investigation of the development, launch and distribution of a particular new PFS product. Specific attention is paid to the organisational and behavioural factors that influenced its development and eventual market outcome. Such factors are given very little consideration in the existing literature supporting NPD activity, yet it is shown that the consequences that they can have for the success of new PFS products in the marketplace can be critical.

The overall value of the research is found in its questioning of the universal nature of the existing provision of theoretical approaches to, and support techniques for NPD, in addition to determining the need for companies, both within and outside of the PFS sector, to take into account highlighted behavioural and organisational factors when involved in development programmes.

For My Mother and Father For Their Love and Constant Support

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CHAPTER 1

INTRODUCTION

1.1 NEW PRODUCT DEVELOPMENT IN THE PERSONAL FINANCIAL SERVICES SECTOR

The development of new products is an activity which in recent years has taken on an increasingly important role within organisations in the personal financial services (PFS) sector. Why this has come about is thought by several writers (Ennew et al 1988, Girle 1986, Carter 1986), to be associated with changes in the legislative framework, for example the introduction of the Financial Services Act 1986, and the Building Societies Act 1986, affecting the environment that PFS companies operate within. Traditional barriers to trade have fallen, allowing different types of institutions from both within and outside of the sector, to diversify into new product and new market areas. Competition has inevitably intensified, with the development of new products that are successful in the marketplace, becoming an important strategic tool that companies are implementing in their quest for increased market share.

Whilst the increase in the number of new products is plain to see in the advertising literature and promotional campaigns launched by the major banks, building societies and life insurance companies, the way in which such institutions are carrying out development activities is not so apparent. The literature associated with new product development (NPD) provides the practitioner with advice on how best to conduct development projects, indicating which organisational factors, (in terms of required tasks, structure, personnel, culture etc), need to be in place to inculcate new product success. For example, marketing research is viewed in the literature as key task in the NPD process, and a pre-requisite for best practice. In addition, several procedural models have been developed over the years in order to promote best practice in this area. At the same time, very little is known about how applicable such advice and modelling techniques are to the PFS sector. Not only has research investigating new product development concentrated its attention upon the manufacturing sector, which has very different sectorial characteristics to personal financial services, but there has also been a lack of empirical work illustrating the fit between theory and practice.

What is clear within the general PFS literature is that the inherent characteristics of the sector are reflected in the very short lead times that new products enjoy before competitors launch similar copies (Watkins et al 1986). Moreover, that PFS products are in themselves intangible, complex, and difficult to understand, therefore requiring high levels of service content, is also well established (Frith 1988, Watkins and Wright 1986, Carter et al 1986). Nevertheless, how such product attributes affect the development and subsequent distribution of new PFS products is an area that is under researched, and yet the implications that these factors have for the implementation, management, control and eventual success or failure of development projects are far-reaching. The following study therefore attempts to address these issues through a closer analysis of the general NPD activities across a number of PFS organisations, and more specifically through the study of the development, launch and market performance of an innovative product in a life insurance company.

1.2 THESIS STRUCTURE

At the outset of the research it was not possible to indicate precisely the exact nature of the issues that were going to be addressed within the body of the thesis. This was due, in part, to the limited existence of knowledge about the realities of NPD practices in the PFS sector. Because of this limitation, it was felt important to establish a general picture of the extent to which planned NPD activity was taking place within the sector.

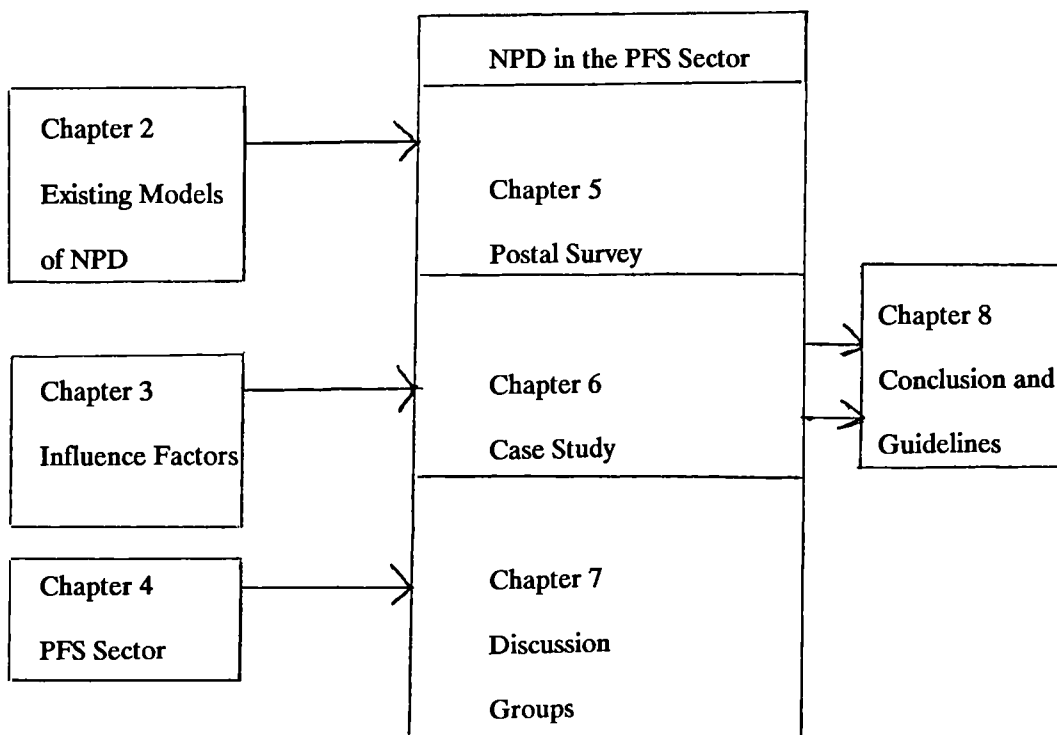
Once this foundation existed, it was believed that it would then be possible to focus attention far more closely upon specific issues that the field work and case study highlighted. With such caveats in mind then, the general objectives of this thesis are threefold:

- 1 - to investigate the practice of planned new product development in the personal financial services sector and indicate any significant variations from existing models of the process.
- 2 - to question the existence of recommended pre-requisites for successful development project within PFS organisations.
- 3 - to examine the influence of organisational and behavioural factors upon the development, launch, and distribution of a specific new PFS product in greater depth.

These broad objectives provided the overall framework for the research which is illustrated in Figure 1.1:

FIGURE 1.1

THESIS STRUCTURE



The initial three chapters provide the setting for the analysis of field data collected via the use of a postal questionnaire survey, in addition to a case study of a particular development programme. More specifically, chapter 2 investigates the literature associated with NPD, and looks at the problem of definition of a new product in order to establish a common interpretation for the reader. It then goes on to question the applicability of existing models of the NPD process to organisations in general, highlighting the potential gap between theory and practice. Chapter 3 reviews the literature associated with factors that can act as a barrier or stimuli to development, and presents a strategic model that addresses the key organisational requirements that the literature recommends are in place for successful NPD programmes. Communication, resistance to change, organisational structure and culture and marketing research are all highlighted as factors influencing the development and subsequent performance of new products. The PFS sector is introduced in Chapter 4, in terms of its characteristics, institutions and the changes it has undergone, illustrating how these variables have influenced NPD activity and the methods of distributing new products. The aims and methodology of the research are also introduced in this chapter, alongside the rationale for adopting the differing types of data capture methods within the study. The central element of the thesis is then turned to, namely the reality of NPD practice in the PFS sector, and factors influencing the market outcome of new products. The approaches to development activities taken by organisations are investigated, in addition to the importance attached to marketing research within the process. This latter task, whilst being seen in the literature as a pre-requisite for success and underpinning best practice, is viewed as an indicator of whether the recommended planned approach to NPD is being undertaken within in-company programmes. Chapters 6 and 7 examines the development, launch, and subsequent distribution of an innovative PFS product within an organisational setting. This was undertaken to provide a deeper and more descriptive picture of a 'live' NPD undertaking. Furthermore, it allowed for a detailed exploration of some of the behavioural and organisational factors that influenced the market outcome of the selected product. Finally, the main conclusions of the study are summarised in Chapter 8. A set of guidelines in the form of a number of key questions are also presented that are based upon the findings of the research, and which provide the practitioner with an insight into factors which influence the development, distribution and market performance of new PFS products.

CHAPTER 2

NEW PRODUCT DEVELOPMENT LITERATURE

2.1 - INTRODUCTION

The subject of new product development (NPD) has received a considerable amount of attention over the last twenty five years. During this period, a general prescriptive approach to development activities has evolved, which is well documented within the marketing literature. Significant advances have also been made in the sophistication of marketing research techniques and models which support the development process. At the same time, the cost of successful development and launch of new products has increased dramatically (Wind and Mahajan 1988). Yet, relatively few genuinely innovative products have been developed, line extensions and copies of existing products being far more commonplace (Booz, Allen and Hamilton 1982). Furthermore, the incidence of market failure has continued to be a cause for concern (Cooper and Klienschmidt 1987), with *approximately three-quarters* of all developed products failing commercially (Booz, Allen & Hamilton 1982). Given that this is a re-occurring problem for companies involved in NPD, the question of why this takes place needs to be addressed. However, before further elaboration over the possible causes of market failure can take place, it is necessary to establish a common understanding of what constitutes a new product. Section 2 of this chapter therefore reviews the definition of 'new' within the existing literature, and discusses the spectrum of activities that can be subsumed under the umbrella of new product development. The underlying reasons for the continued emphasis upon the development of new products are then reviewed in Section 3. Finally, the adequacy of existing theoretical models of NPD is commented on (Section 4), illustrating the fact that they have had little impact on management practice of product development which continues in an ad-hoc fashion.

2.2 - DEFINITIONS OF NEW PRODUCT DEVELOPMENT

The concept of new product development is well established within the marketing literature. It can be broadly defined as a process designed to aid decision-making during the generation, development and launch of a new product. Cowell (1980) views the NPD function as the creation of:

"as many good ideas as possible and then to reduce the number of ideas by careful screening and analysis to ensure that only those with the best chances of success reach the marketplace."

Such a definition emphasises the need for some form of structure, a view reiterated by Kotler (1976) who defines efficient NPD as:

"the selection of a number of suitable concepts for new products and subsequent screening to retain those with favourable prospects."

This focus upon structure is extended by Cooper (1983), who adds that such developments are typified by stages, prespecified activities, and evaluation points. Whilst the common theme underlying each of these theoretical definitions is the emphasis that is placed upon procedure, at the same time this task oriented approach is limited by the lack of recognition given to the human, organisational and market factors which can affect the smooth running of the process. For example, existing NPD models do not contain any feedback mechanisms or error margins, which are needed if such situations as, say, changes in legislation affecting a new product (sometimes making it illegal), are to be taken into consideration. This lack of emphasis upon contingency variables highlights the problem of the possible conflict that may exist between theory and practice. This dilemma has been noted by several writers (Watkins 1986, King 1973), including Sowery (1989) who comments:

"New product development, more than any other area of marketing, exhibits a gap at times between theory and practice, where traditional rules have often to be broken if the product is to be successful".

The interpretation of new product development is further confounded by the fact that much of the literature conflates definitions of new and old. This can create confusion for organisations involved in such activity as the degree of input and involvement in the NPD process, (eg marketing research, financial and time resources), will be dependent upon how the product is defined. In addition, the frequency of associated risk and style of management will also vary according to classification. Nevertheless, the majority of the NPD models (for example Booz, Allen and Hamilton 1982, Pessemier 1977, Scheuing 1974), appear to contain an unwritten assumption that they can be applied in a universal fashion irregardless of type of development activity undertaken by companies. In order therefore to more fully understand the differences between new and old product development, the former must be clearly defined. Strictly, a new product can be viewed as an innovation:

"Something newly introduced, such as a new method or device" (Collins 1983).

It is also defined by Walker (1988) as being:

"Concerned with the advance of new systems, products with new characteristics, and new techniques of organisation".

A new product must therefore be the first introduction of its kind to the company involved with its development. In addition, a new product should have attributes that are different in some way to those in the existing product range.

Such interpretations go some way in distinguishing between new and old, but they do not provide a full solution to the problem. Although the literature does encompass the above definitions, it is not confined to them. A mere change to an existing product or new packaging, is also classified as NPD (Sowery 1989). In an attempt to clarify this issue, some writers have classified product 'newness' from either the company's or user's perspective (Mathur 1986, Kotler 1984, Cooper 1982, Robertson 1971). For instance, Robertson (1971) refers to radical and incremental product innovation depending on how new the innovation is to the user. Whereas White (1976), identifies product type in terms of newness to the company/market place as follows:

Distinctly New Products - involving different forms, technologies or ingredients from those currently produced by the organisation.

Line Extensions - representing no fundamentally different forms, technologies or ingredients, but representing additions to an existing line of products

Product Improvements - with emphasis upon modification to an existing products.

Further classifications of newness are identified by Robertson (1971), in terms of time and sales penetration levels. He comments that many products have been promoted as new for as long as 2 or 3 years after their launch. In addition, he argues that a product can be arbitrarily called an innovation if it has secured 10 per cent of the total potential market. Robertson further states that all of these definitions are fraught with difficulty and, moreover, can give a different classification of newness for the same product. Although a distinction, is therefore made between developments that are genuinely innovative and those that are adaptations of existing products, they are all still subsumed under the title of new product development. However, some activities could be more readily defined as old product developments.

Recognition of this problem of definition is also given by Johnes and Snelson (1988). They point out that it is caused by the uncertainty within the literature over what is to be classed as a new product and what is to be called an old product, and also by the limited attention that has been

given to creating a greater distinction between the two. A rare attempt to instigate a division, can be found in the work carried out by Gronhaug (1976). He defines old product development as a distinctly separate activity and interprets it as:

"Successive minor improvements such as variations in formulation and range essentially fulfilling the same needs as before, although more efficiently".

The lack of reference to old product development in the marketing text may, in part, be due to the previously mentioned pre-occupation with new products as providing the means for long term corporate growth and success.

"In fast changing markets a company will need to update its existing products regularly and it will also need to introduce new lines to supersede ageing ones at appropriate times" (Johne and Snelson 1988).

The problem of definition is further compounded by the 'depth' of activity that is required in development programmes. The depth of analysis, research and resource requirements, (time and cost), will be far greater for innovative products than those that are new only in terms of the developing organisation. In addition, the development process will differ according to product definition. For example, if a company is modifying an existing product they will not be involved in the activity of generating new ideas, or carrying out extensive testing needed for a major innovation.

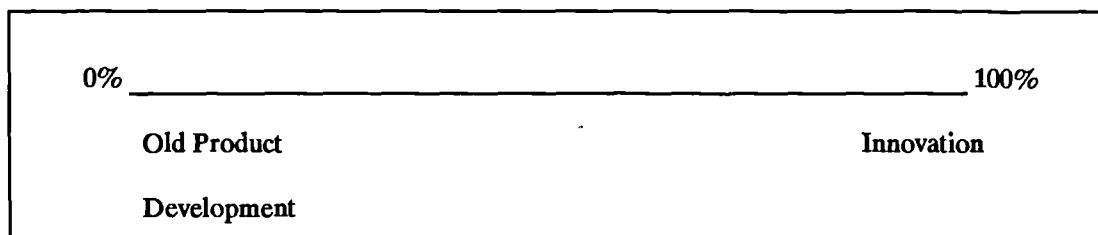
In as much as these definitional issues do exist, it is necessary for the purposes of this research to overcome the confusion that the alternate perspectives of new product development might represent to the reader. The following definition, which takes account of the various interpretations of NPD, will therefore be referred to throughout the text:

New Product Development is a generic concept which is shown in the literature to be concerned with developing products in many ways, ranging from innovations to existing product modifications.

The concept of a universal definition of NPD is best illustrated in diagrammatic form. Figure 1 indicates that innovation, viewed as the purest form of development, occupies one end of the spectrum of NPD activity. Its position along the continuum of activity (100%), signifies the depth of undertaking required by an organisation, in terms of time, finance, research and commitment. At the other end of the spectrum of activity, old product development denotes minor modifications to existing products, requiring limited involvement by the developing organisation. Between these two extremes lie varying degrees of NPD activity and associated responsibilities.

FIGURE 2.1

THE SPECTRUM OF NEW PRODUCT DEVELOPMENT ACTIVITY



The implicit definition contained in figure 2.1, captures the all-embracing nature of NPD, providing a common frame of reference for the reader throughout the body of the research.

2.3 - THE NEED FOR NEW PRODUCT DEVELOPMENT

Several explanations have been put forward in the literature for the continuing interest in new product development over the years. Some authors state that it is because new products provide organisations with a competitive advantage, a basic requirement for corporate survival and growth (Kameshki 1988, White 1976, Hayhurst 1968):

"The emergence of a formalised new product development function can be attributed to the needs of companies --to maintain a competitive advantage in the markets in which they operate, this being a prerequisite for corporate survival and growth" (White 1976).

Competitive advantage, through the medium of new product development, is also viewed by some writers as a strategic marketing tool; ie as a means of utilising a company's strengths and changes in the marketing environment (Goulding 1983, Kollat and Blackwell 1972). As Kollat et al state:

"The decisive role of differential advantage has strong support in the business strategy literature".

There appears to be agreement that NPD activity can provide companies with protection against competitors in addition to increases in market share. However this view presupposes that developments are of an innovatory nature and not easily imitated. In some sectors of industry, such as personal financial services, it can be difficult to obtain competitive advantage through new products because of the ease and swiftness of copying that exists.

A further reason for the continuing interest in NPD which is well supported in the literature, is that new products can affect both the sales and profits of a company (Goulding 1983, Booz, Allen and Hamilton 1982). For example, Assael (1985) sees development activity as being related to profitability for the following reasons:

- (1) - a continuous flow of new products is needed in order to sustain growth
- (2) - the advantage of being first in the market with a new product
- (3) - the experience gained by continuous involvement in NPD.

Although some large companies within certain sectors do undertake continuous development activity (Segal-Horn 1989) in their quest for market leadership, this is not the case across all sectors and for companies of all sizes. Smaller organisations within very competitive sectors such as retailing, may look for different ways to increase or keep their existing market share, for example through customer service programmes. However, organisational size has been found to have ambiguous effects, but these findings may be partly due to problems of measurement (Kimberley 1976 b). Size as measured by extent of organisational resources is generally held to increase development activity. Moch and Morse (1977) state that size as denoted by volume of input, is likely to lead directly to economies of scale which enhance the feasibility of new product development. Kimberley (1978), however argues that where there is no prior commitment to invest in projects, (which represents an institutionalised claim on company resources), then it is

far easier to set up developments in smaller companies, where negotiations for resources can proceed on a more informal basis.

Whilst interpreting the effects of size is hardly straightforward, its effect on the ability to undertake development ventures does need recognising. Nevertheless, there appears to be an in-built expectation in the literature that new products will contribute to corporate sales and profits at an ever increasing rate irregardless of the extent of resources to an organisation for development activities (Booz, Allen and Hamilton 1982). Indeed, Goulding (1983) contends that some text show:

"a distinct lack of appreciation of the realities faced in new product decision making. Some authors advocate what could be very costly research exercises with little consideration of the likelihood of the real benefits for the company".

Further reasons for the need for new products are given by Goulding (1983), who states that development projects can go some way in helping a company achieve some of the following objectives:

- (a) moderation of single market dependence
- (b) expansion of product range
- (c) exploitation of market opportunities
- (e) replacing obsolescent products.

Each of these objectives can provide useful performance criteria according to the strategic role assigned to a project. Indeed, many writers have stressed the importance of an explicit NPD strategy to a business, derived directly from corporate strategy (Twiss 1980, Crawford 1983, Booz, Allen and Hamilton 1982). For example, Booz, Allen and Hamilton (1982), found that successful firms often assigned specific strategic roles for individual developments. Cooper's research (1984) has also revealed that companies should decide what kind of success they want from their NPD programmes. An organisation could aim for a high percentage of sales generated by new products, low market failure rate in NPD, or good performance relative to competitors. However, in a more recent study of NPD activity, Cooper (1988) argues that the

individual company cannot blindly pursue these objectives without taking into account competitive pressures which may in themselves limit development activity. Indeed, there are numerous variables that need to be considered which can impede successful development of new products, suggesting that, *prima facie*, the NPD process is an extremely complex phenomenon.

2.4 - THE NEW PRODUCT DEVELOPMENT PROCESS

Several models of the new product development process are to be found in the marketing literature, ranging from the simple to the more complex (Bowers 1986, Katsner 1981, Kotler 1976, Cooper 1976). Although differences occur between each type, they follow a similar format, which was established during early commercial studies of the process by Booz, Allen and Hamilton. The original model was defined in 1968, (updated in 1982), and is based upon empirical consulting research conducted in leading US companies. It has been used extensively as a framework for further research in this area and is illustrated in Figure 2.2:

FIGURE 2.2

NEW PRODUCT DEVELOPMENT PROCESS	
(Booz, Allen & Hamilton)	
(1968)	(1982)
NPD Strategy	
Exploration	Idea Generation
Screening	Screening & Evaluation
Analysis	Business Analysis
Development	Development
Test Marketing	Test Marketing
Commercialization	Commercialization
Source: Adapted from Booz, Allen and Hamilton 1968, 1982.	

As Figure 2.2 depicts, the more recent research carried out by Booz, Allen and Hamilton has resulted in a further stage being added to the existing model of the NPD process. This new addition indicates that successful NPD practitioners start the process with planning and strategy formulation from which the objectives of the subsequent stages are generated. Moreover, their study has demonstrated a link between successful new product launches and the amount of resources and commitment the firm put into the first three stages.

Similar models of the new product development process have been conceived by other researchers, which are summarised in Figure 3. Whilst there exists a substantial number of additional models in the marketing literature, this summary table provides some indication of the current status of new product development.

FIGURE 2.3

COMPARISON OF NEW PRODUCT DEVELOPMENT MODELS

Scheuing	Pessemier	Urban & Hauser	Crawford
Initiative	Formulation of product objectives	Opportunity identification	New product strategy
Decision making	Search, design & evaluation	Design generation	Concept
Execution	Product development & testing	Testing evaluation	Concept
Control	Market development	Introduction	Launch
	Profit management	Review	

Source: Scheuing (1974), Pessemier (1977), Urban and Hauser (1980), Crawford (1984).

It can be seen from Figure 2.3 that there is some disparity concerning which stages of development should be included in the process. Kilne (1985), argues that this lack of clarity is

caused by the implicit use of a linear model, which is inappropriate for innovative product development. The linear approach views such development activity as:

"an orderly process, starting with the discovery of new knowledge, moving through the various stages of development, and---emerging in a final viable form" (Kilne 1985)

Kilne goes on to state that although inappropriate the linear model continues to underpin much of the existing and current writing in this area. Indeed the term NPD process implies a direct path from early research to final development and launch. Takeuchi and Nonaka (1986) have shown that many innovative firms have rejected the sequential style underlying existing NPD processes and instead have adopted a more integrated, holistic approach. They argue that this allows for flexibility, problem-solving and initiative taking which existing processes exclude. Although they provide insight into the benefits to be derived from this new approach to NPD, they also stress that it requires careful effort and may not be suitable for large or radical projects. Warning is also given against institutionalising procedures that may only be successful in one particular set of circumstances. It could also be argued that a holistic approach can only be utilised under certain internal and external conditions, which have yet to be identified. Further research by Cooper (1983) has shown that the simple normative series models of the NPD process are misleading. From a study of 58 new industrial product case histories, he found that no two projects followed an identical process. He identified seven different approaches to NPD and related each one to type of firm and project outcomes. He found that the most successful projects were characterised by a balance of marketing and technical activity, spanning most of the stages prescribed by the normative models.

Further objections to existing approaches to NPD are associated with the fact that the majority of research conducted in this area to date has been confined to the manufacturing sector. Sowery (1989), believes that this has occurred because such markets are less complex than mass consumer markets, and as a result they are probably more open to in depth research. A further reason for this attention, is that the time required to develop industrial products is far greater than that associated with fast moving consumer goods. In some sectors, such as personal

financial services new developments may take weeks as opposed to years. This view is supported by Goulding, (1983) and Cooper (1982), who argue that a more contingent approach should be taken towards product development research. They believe that factors, such as time and investment resources available, are subject to large variations between industries and types of products/services produced, which cannot be ignored. Goulding also criticises the NPD process as being too general in attempting to provide a procedural method applicable across all industries, and comments:

"Unfortunately such tools rarely fit the exact needs of any particular development project, and do not always take into account the cost effectiveness of many of the activities which they advocate."

Evidence that the theoretical models do not reflect the needs of particular sectors, is illustrated by the fact that they have had little impact on management practice of product development which continues in an ad-hoc fashion. Cooper (1982) believes that this is because research findings do not necessarily translate into usable product development guide-lines. He advocates a more flexible approach, arguing that each company's product development needs are unique.

2.5 CONCLUSION

This review of the existing marketing literature has been undertaken to provide a discussion of the most salient issues associated with NPD practices, and has provided the basic reasons why further research is required in this area. Firstly, however, the definition of 'new' within the existing literature has been debated, and the spectrum of activities that can be subsumed under the umbrella of new product development analysed. Through this analysis, a common definition of new product development has been arrived at, and will be referred to throughout the text: A generic concept which is shown in the literature to be primarily concerned with developing products in many ways, ranging from innovations to existing product modifications.

Secondly, the underlying reasons for the continued emphasis upon the development of new products were discussed. These were seen to be associated with a number of objectives such as a high percentage of new product sales, low market failure rates, or good performance relative to competitors. However, it was also pointed out that such objectives cannot be blindly pursue without taking into account competitive pressures which may limit development activity. Indeed, the next chapter will pursue this point in more detail, and review some of the internal organisational variables which can impede successful development of new products.

Finally, this chapter has reviewed the application of existing models of NPD. During this examination, it has become increasingly apparent that there is a requirement for further research which identifies the new product development practices of individual firms and specific sectors. In addition, such work should highlight the relevant organisational and behavioural issues that need to be explored so that existing models can be improved, or alternative approaches developed. Because of the lack of published case study material looking at the ways in which NPD takes place in practice, the main body of literature has provided more prescriptive approaches that do not take into account the many internal and external factors which affect the process. Much of the following research attempts to address this problem by providing an in depth study of the activities of product development and associated human, organisational and market factors within a consumer orientated sector, ie that of personal financial services.

The following chapter continues the review of the existing literature that is associated with NPD. Its primary objective is to reexamine the possible internal and external causes for new product failure in the marketplace. The literature that is considered spans several disciplines and substantive areas. This wider review is undertaken to ensure that obstacles to successful development are due to the limitations of the process itself. Indeed there are several other legitimate explanations for new product failure such as poor implementation, or lack of adequate communication to employees (Wind & Mahajan 1988). Recognition of this fact opens the way for differing perspectives to be included in the research, providing the stimulus for raising new questions about the triggers for success or failure in new product development.

CHAPTER 3

BARRIERS AND STIMULI TO NEW PRODUCT DEVELOPMENT

3.1 THE LITERATURE ASSOCIATED WITH SUCCESS/FAILURE IN NEW PRODUCT DEVELOPMENT

At any point in the NPD process the potential exists for barriers or stimuli to successful development. But what factors contribute to success or failure?

Several studies have been undertaken within the NPD literature that have been undertaken to investigate the factors this question. For instance, the Stanford Innovation project (Madique and Zirger 1984), analysed successful management of high technology NPD. Other studies, such as Project NewProd (Cooper 1976) and Project Sappho (Rothwell 1976), have looked at the main determinants of new product success within an organisational setting. However, in order to provide a more comprehensive answer to the question of contribution, there is a need to review a far wider base than the current literature associated with NPD represents.

Studies of barriers to and incentives for success appear frequently in the technology transfer and innovation literature. Research projects undertaken by Kanter (1983), and Hoffman and Roman (1984), have each attempted to identify the organisational variables that constrain the implementation of technology. Such work has interesting parallels with studies of success and failure of new products, in that they are both concerned with the effects of organisational, behavioural, and environmental factors upon the efficiency of innovation/NPD processes. Emphasis is also placed within this set of literature upon the concept of transfer. This can relate to a new product developed for a specific market, (ie transfer from developing company to customer through sales staff), or alternatively, transfer can apply to a new operating system, (ie transfer from developing department to internal users). Transfer can also relate to exchange of information about a product, system or procedure to personnel within an organisation. Internal

communication is a key factor in the subsequent acceptance and adoption of the planned change or introduction by staff.

This issue of gaining internal acceptance is viewed as being of paramount importance to any discussion of new product success or failure. All too often emphasis has been placed within the NPD literature upon the mechanics of how to successfully launch and market new products to the end consumer in order to gain positive acceptance and purchase. However, very little consideration has been given to the ways in which a similar attitude can be encouraged amongst employees of companies undertaking new product development. This shortcoming has instead been partially investigated in the management and behavioural science literature. Several studies have been conducted over the years, which have highlighted factors, such as resistance to change and uncertainty, as obstructing successful implementation of innovations within organisations (Ackoff 1967, Quinn 1973, Frank and Hackman 1975).

In terms of trying to define factors associated with success/failure, a shared conclusion amongst research in each of these sets of literature, is that each identified variable which is viewed as contributing to a new product's success, can also be an underlying cause for its failure.

Moreover, success/failure determinants can vary between companies and across sectors (Rothwell 1976). Defining success or failure in NPD is, therefore, somewhat paradoxical. In some cases a product may enter a market, be successful briefly and then be withdrawn and judged as a success or failure according to the criteria set by the individual organisation (Watkins 1986). It would appear therefore that caution should be used when identifying individual factors of success or failure of new products. At the same time, it is also clear that there is a need to establish some sort of structure to enable research into success/failure factors to take place. This can be provided by taking a strategic overview of the key organisational requirements for successful NPD activity, a subject which is addressed in the following section.

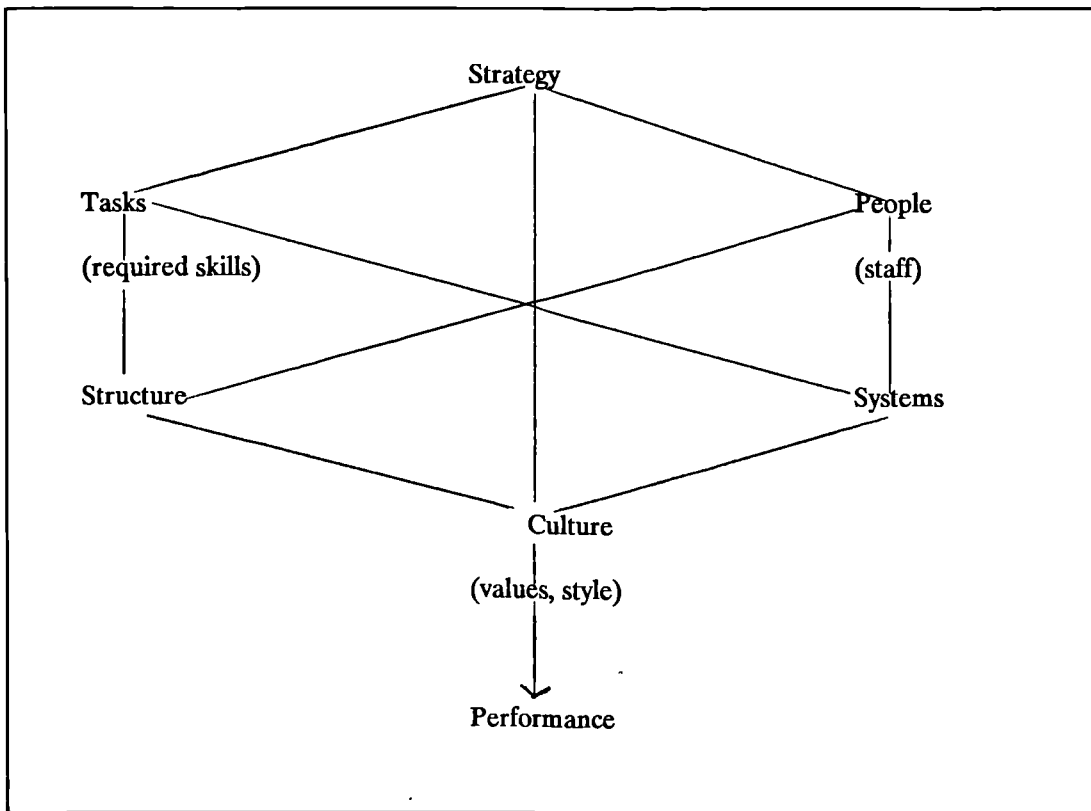
3.2 A STRATEGIC PERSPECTIVE OF NEW PRODUCT DEVELOPMENT PRE-REQUISITES

"A basic requirement for success in all strategic activity, is that the required organisational skills or assets are in place" (Aacker 1984).

This statement by Aacker, presupposes that any process or strategy such as new product development, which is undertaken to achieve corporate objectives of growth, profit, or market leadership, is by its very nature linked to the internal mechanisms of an organisation, and should be viewed from a strategic standpoint. Indeed, the importance of reviewing new product development as a strategic corporate action is illustrated by Crawford (1983), who emphasises that NPD activity is second only to corporate strategy in that it involves all aspects and all functions of management.

Nevertheless, although a precondition for the successful attainment of corporate objectives is that 'all required skills and assets' are in place, it is also necessary to establish how they might be defined. To this end the strategic management literature provides several frameworks for analysing pre-requisites for effective management of strategy. One such conceptual framework has been developed by the Management Analysis Centre, a US consulting firm, which is illustrated in Figure 3.1. Whilst the MAC framework was originally designed to diagnose a firm's ability to support an existing or planned strategy, there is no reason why it cannot be used for the analysis of the requirements for successful NPD.

**FIGURE 3.1 -
A FRAMEWORK FOR ANALYSING ORGANISATIONS**



Source: Adapted Management Analysis Centre, 1982.

It could be argued that this framework merely represents an analytical tool, and therefore cannot be relied upon to capture the full complexity of what underlies the activities involved in NPD. However, in response to this potential criticism, the purpose of the framework is to help make sense of the complexity involved rather than understand every aspect of that complexity. As Figure 3.2 shows, it can be most usefully adapted to provide a structure for analysing some of the major factors required for the successful development of new products.

FIGURE 3.2

PRE-REQUISITES FOR NEW PRODUCT DEVELOPMENT STRATEGY

TASKS - Gathering consumer and marketing intelligence information
PEOPLE - Roles and functions required for executing NPD task
STRUCTURE - Organisational structures used to implement NPD activities
SYSTEMS - Control and co-ordinating mechanisms for carrying out NPD activities
CULTURE - Overall acceptance of the need to pursue a particular NPD strategy

Source: Adapted from Management Analysis Centre 1982 and Pascale and Athos 1982.

The following sections review some of the existing literature associated with each of the pre-requisites illustrated in Figure 3.2. In addition each section discusses the success/failure factors that are associated with each requirement in more detail.

3.3 - TASKS

An in-depth understanding of user needs and a focus upon market information gathering, (ie marketing research) are considered as key factors in many of the studies of determinants of new product success (Cooper and Klienschmidt 1987, Rothwell 1976, Rubenstein 1976). It is similarly regarded as a key activity in much of the NPD literature (Johne and Snelson 1988, Knox 1987):

"Successful new products are the fruits of successful research and product development, so it follows that if there is an increasing dependency upon new products to make substantial contribution to company profits both in the short and medium term, then it must be recognised that winning concepts have to be identified at the very early stages of development for both commercial and marketing reasons" (Knox 1987).

Research associated with development practices cover a wide variety of activities ranging from the identification, segmentation and measurement of markets, to ad-hoc studies associated with consumer attitudes towards specific product proposals. A review of the general NPD framework, reveals that some form of data collection activity and analysis can be carried out at each stage of the model. In fact some writers view the process solely in terms of marketing research, as Hill (1988) states:

"Any company serious about NPD activity would do well to adopt a systematic approach by building up a consistent market research programme."

However, although marketing research is regarded as an essential element, there is much variation in opinion on how it can be included in a project, and how it should be put in to practice. For example, at the early stages of the NPD process, Andrews (1975) identifies the following possible sources of new product concepts, all of which involve some form of research activity:

- Brainstorming
- Think tanks
- Technological ideas
- Long range planning studies
- Design Factor Analysis
- Activity analysis
- Market gap analysis
- Learning from foreign markets

These sources of new ideas would presuppose heavy use of research, but as already shown some development activity, such as, product modification do not require such depth. Alternatively, some projects may leave out the early stages of the process altogether.

This view is supported by Cowell (1988), who states that many product concepts are conservative, often focussing upon geographical extensions, me-too ideas, which would preclude most research activity. Further anomalies within the literature are associated with the appropriateness of market research at subsequent stages of the NPD process. For example, during the screening of a new product it is recommended that some form of research is carried out as:

"it is a means of increasing the quality of managerial decisions since selection based on judgement alone is more likely to result in failure to develop an idea with potential" (Kotler 1976).

Secondly, it is stated that a poor idea can be allowed to proceed further towards commercialisation unless adequate market information is gathered (Golding 1983). However, research conducted by Easingwood (1986), found evidence of widely differing practices among companies in terms of the formality of their screening processes, ranging from formal to the informal.

The second and third stages of the general NPD framework (concept and product testing), involves some form of presentation to the potential consumer of the proposed new product, in order to gain reaction to the product and its attributes. However some of the ways in which concepts are communicated to potential users are more attractive than others, and can therefore give a artificially high rating for a new product (Tauber 1972). The type of development that is being undertaken is also a potential cause of concern at these stages, in that a respondent may have very little experience or knowledge of innovations:

"radically new products tend to fare badly in concept testing" (Broadbent 1980).

Moreover, Tauber (1972) argues that consumer attitudes are dynamic in nature and are therefore unreliable predictors of behaviour. The penultimate phase of the NPD process is test marketing. This is defined by Eassie (1972) as testing a new product through an area test or shop panel so as to recreate as near as normal shopping and purchasing conditions. Although designed to eliminate costly mistakes, it is heavily criticised in the literature in its use as an extensive market experiment. For example, King (1973) comments that: "the delays of test marketing have often spoilt what might have been successful businesses".

Lipstein (1965) also focuses upon the critical role of money and time in test market decision making:

"Certainly if you take enough time and spend enough money you can easily judge whether or not the product will gain sufficient consumer acceptance to warrant going ahead nationally".

It is evident from such deliberations that a key consideration in the use of test markets is that of resources available to a company, which will facilitate or limit the use of all marketing research activities prescribed at different stages of the NPD process. Ray (1983) argues that the time spent on decision making or research may be crucial to success, as excessive time allocation can cause as many problems as inadequate timing. Collecting and analysing market data can also be expensive and time consuming. On the other hand, it can allow a company to understand the requirements of the market and the consumer and make sure that a new product is developed in such a way as to match these needs.

The literature associated with the use of marketing research contains a divergence of opinion about its usefulness at different stages of the NPD process. In addition, even where research is viewed as an integral part of new product development, there does not appear to be any guidelines as to how to build such activities into the process, leaving the following questions unanswered:

- whether marketing research should be utilised at each stage of the NPD process
- what kinds of research need to be undertaken
- how much money and time should be spent.

The absence of implementation guidelines is further compounded by a lack of empirical research investigating the actual usage of research in the NPD process. Lonsdale and Stasch (1986), found in their review of the marketing and product management literature of the 1970's and 1980's, that very little had been written about industry/organisation practices regarding such decisions. What little empirical research that has been carried out, has shown that organisations

do not take marketing research activity seriously when developing new products. For example, Johnes and Snelson (1988) whilst reviewing the product development activities in several US and UK companies, found that marketing research was only carried out at the product launch stage by 12 per cent of companies in their sample. Similarly, the NewProd research project found that a market orientation was missing in the majority of the NPD projects that they looked at. In fact marketing in general was amongst the most poorly rated activities of the entire product development process:

"The weakest input was marketing research or the detailed market study: it was also the one activity which managers singled out as needing the greatest improvement" (Cooper 1976).

3.4 - PEOPLE

The type of staff and functional specialists needed to execute developments in an efficient manner has received limited attention in the NPD literature. However, the nature of the roles and attitudes that individuals adopt, and the breadth of specialism applied to the NPD task can be identified as central issues in the analysis of the role of personnel in the successful development of new products.

The formal participation of users is recommended by Blackler and Brown 1986, as promoting a more complete acceptance of new technology. In addition, Keen (1985), described the role of gatekeepers within an organisation. These individuals are defined as informed personnel who transfer information to other, less knowledgeable personnel, and are seen as being conducive to successful implementation of innovations. Similarly, product champions (who actively support a project's progress through its critical stages), business innovators (who promote a project from a senior level within an organisation), and technical innovators (who originate the concept), are seen by Rothwell (1977) as key factors in promoting innovation. This view is reiterated by Piercy (1985) who goes on to caution that the structure of organisations involved in NPD needs to be

conducive for such key posts to exist. Takeuchi and Nonaka (1986) show that firms which are successful at innovation, re-assign individuals who have been key agents of change in previous developments to new projects. Through the process of transference, they argue that an organisation is able to harness and accumulate experience in managing product development. Different talents and types of people are likely to be needed to occupy the above roles (Roberts 1977). Kanter (1983) has described individuals who lead development work in organisations as 'change masters', who are able to cope with uncertainty, think laterally, and tackle existing business problems from new perspectives. They are also identified as having a participative style of management, creating commitment to a new project. Commitment is seen to be a critical element in fostering success, especially when it is visibly given by top management (Burgelman 1984). Quinn (1980) argues that when there is a strong organisational commitment in the development process - signified by funding, visibility, coalition support etc - there will also be a staking of reputations on the outcome and greater sunk costs. As a result, more pressure will be placed upon making the NPD function a central part of an organisation's strategy.

Many studies stress that the NPD process should be a vehicle for multi-functional cooperation and coordination (Cooper 1983, Rothwell 1976, Crawford 1983). The involvement of many functional specialists in the innovation process allows for the diversity of inputs required in creative NPD, and builds cross-functional commitment to a project (Crawford 1983, Gardiner and Rothwell 1985).

There are a number of behavioural factors that personnel can portray and which can act as barriers to success. Hawthorne (1978), states that they arise from the need to satisfy such aspirations as political ambitions, and job protection of personnel. He suggested that these desires are manifest in many ways, the most obvious example being resistance to change in the workplace. Paton (1986) states that it is not change itself that is feared or resisted by personnel, so much as it is change associated with uncertain or possible detrimental outcomes. Indeed, during the implementation of innovative products or systems, all levels of the organisation must deal with unknowns; the more uncertain the outcome the more unlikely that successful adoption of the development becomes.

Adverse reaction to the introduction of a new product or innovation can lead to the formation of further barriers. Leonard Barton and Kraus (1985), identified in their research that the most common cause of opposition to new technology, was fear of loss of skills, power or personal benefit. Similarly, in the case of the introduction of new products to employees within a company, opposition may occur because of lack of knowledge of how a new product works. There may also be resistance to the increase in the number of products in an organisation's range. Such increases may be viewed by employees as placing greater demands on their time (ie the extra effort required to sell a new as opposed to an existing product), as well as bringing about change in existing working practices. Very little research has investigated this issue of employee adoption behaviour, that is behaviour after the initial decision to invest in a new technology or develop a new product has been made by an organisation. Work by Leonard-Barton (1988) has indicated that employees further down the organisational hierarchy will still be assessing how an innovation will affect their jobs or those of people reporting to them, and deciding how they will respond to a new development. She draws a distinction between the innovation adoption decision and the innovation response, and argues that it is the latter that determines the extent to which the innovation is utilised, proposing further research into this area.

3.5 - STRUCTURE

There are two central debates in the literature associated with structural considerations and NPD, the first relates to the day-to-day management of this activity. The second strand of research discusses the way in which corporate structure impacts upon a company's innovative capability. Each theme will be considered in the following section.

Considerable attention has also been given in the literature to the formal structures suited to the day-to-day management of new product development. Features of this concern are associated with the advantages and disadvantages of such organisational functions as new

product development departments, managers and task groups (Hopkins 1975, Benson and Chasin 1976, Sands 1983). A common theme that is addressed in this work is the recognition that different organisational mechanisms are appropriate to different types of NPD. Souder (1978), shows that turbulence in the market and technological environment will determine the nature of the task group mechanism for managing development projects. Similarly, Benson and Chasin (1976) and McTavish (1984), demonstrate that the NPD organisation is contingent upon the size of the firm. Other monographs have emphasised the need to keep radical new product activities apart from those of the on-going operation of a firm (Cooper and Schendel 1976), as the demands of the current operation can easily overshadow development projects. Moreover, Quinn (1986) stresses the importance of establishing separate organisational task groups in order to circumvent the inevitable bureaucracy of the existing organisation. This has led some companies to establish venture groups and NPD teams (Smale 1985). Whilst this separation is seen as providing some benefits, it can also be dysfunctional in terms of loss of control and coordination. Indeed, Tushman and Nadler (1986) stress the importance of linking mechanisms, such as NPD committees, to ensure that the different components of the organisation are coordinated into a workable whole.

The second consideration for debate, centres around the need for different structural forms for managing on-going operations, in addition to the change that development projects bring about. It is widely accepted that functional and stratified organisational structures are efficient for managing current business activities but less suited to effecting change. Kulodny (1980) argues that matrix structures foster innovation, as they allow for the integration of the many different functional inputs requirements. Similarly, Burns and Stalker (1961) found that an organic structure with flat hierarchies and low-level centralisation, allowed for a higher rate of innovation than more mechanistic structures. More recently, there has been a departure in the literature away from such emphasis on structural considerations, with greater consideration being given to corporate culture in the form of shared values (Lessem 1985). This movement has taken place because it has been recognised that formal structure:

"only reflects the trappings and not the substance of what is intended to happen.....how an organisation actually functions may be quite different from what is portrayed in its organisational chart" (Johns and Snelson 1987).

They go on to point out that although there maybe an official NPD function within a company, a manager may have very little formal authority to act independently. The organisational chart will give some indication of the manager's likely formal influence, but this will not be at all fixed due to such intangible factors as operating norms and management style. Although this movement towards a more realistic approach to the organisation of NPD is being taken, one intrinsic element of structure that has received little recognition in the traditional NPD and marketing literature is that of organisational communication. What research that has been undertaken, concerns the diffusion and adoption of new products after market launch, ie the customer-organisation communication channel. Due to the paucity of work in this area, very little is known about the role of internal communication at different stages of the NPD process, ie the employee-organisation communication channel. Indeed, the literature associated with NPD, appears to present new product success as independent of employee reaction to new developments. In comparison, the transfer of technology and innovation literature, places great importance upon communication in the implementation and acceptance of an innovation (Ettlie 1983). For instance, McNeely and Tjosvold (1988) argue that communication plays a critical role in stimulating innovation in organisations (Booz, Allen and Hamilton 1982). Similarly, Albrecht and Ropp (1984) maintain that acceptance of innovation occurs in the context of personal communication. They argue that innovation flourishes in organisations:

"when information flow is widespread, feedback is rapid, and both mechanisms cut across traditional lines of authority".

However, as previously stated very little is known or understood about similar effects of communication on the successful development of new products. It is clear therefore, that a lead from the innovation and transfer of technology literature needs to be taken, with more research emphasis given to considering the types of communication and organisational factors which influence the adoption of new products in specific development projects.

3.6 SYSTEMS

Systems include formal and informal operating procedures for NPD activities. Many writers have focussed upon the use and limitations of project management techniques in order to co-ordinate and put into place the system requirements for complex projects (Dunne 1983, Liberatore and Titus 1983, Tymon and Lovelace 1986). From these studies it is clear that such techniques as PERT and CPM enjoy only a relatively low level of use in NPD projects. Liberatore and Titus 1983, indicated in their research that R & D managers perceived their operating environment to be unique and not amenable to generic modelling tools. It would appear therefore that systems requirements are catered for in a more ad-hoc fashion. Johnne (1984), illustrates how experienced product innovators apply largely informal and non-standardised procedures during the early stages of the NPD process:

"idea generation, screening and concept development are carried out in a flexible way promoting creative problem-solving and feedback".

Once the new product concept is more substantial, however, more formal and fixed controls were exercised over the development in order to successfully coordinate and time the new product's launch into the marketplace.

3.7 - CULTURE

As section 3.5 has already indicated, management style and the inculcation of shared values within an organisation, are receiving increasing attention in the NPD literature, and have been highlighted as being critical factors in bringing a new product to the marketplace. Rothwell (1979) argues that top managers need to have an open, imaginative and creative style, in order to encourage middle management to function effectively in product innovation. Booz, Allen and Hamilton (1982), have also indicated that a key feature in innovating firms is supportive top management who encourage risk taking and experimentation. Furthermore, they set broad goals for developments, whilst allowing those involved in transforming goals into tangible products, freedom to operate as they see fit (Takeuchi and Nonaka 1986, Souder 1981). However, it is questionable whether such management styles and democratic styles of management are applicable during all stages of the NPD process. As Duncan (1976) observes, the early stages of the process require lower formalisation of procedures and greater decentralisation of decisions, in order to facilitate the creative process. This requirement changes during the implementation stage, where he states that formalised procedure and centralised decision making are needed.

In addition to having in place the most conducive management style for NPD, an organisations's ability to cultivate a shared acceptance of the need to pursue a particular new product strategy, can be a complex and lengthy procedure. Proficiency in this area can vary according to the history, existing beliefs, norms, and management style of the organisation. Several studies have shown that an innovating culture is brought about by an openness and interchange between different units and functions operating at all levels within a company (Gresov 1986, Tushman and Nadler 1986). Such interchange is promoted by a number of different policies and operating norms. This may include cross-functional job design, training and rotation (Tushman and Nadler 1986), where experience across functional areas can create appreciation of the multi-faceted nature of development activities, and facilitate co-operation in managing innovation.

Shared acceptance of an organisational goal, such as the development of a new product, is not however that simple to inculcate. How, for example do socio-political factors affect employees response to innovation? Very little research has investigated the reasons why some employees refuse to accept a particular new product, even after their employing organisation has implemented the strategy for its development. This refusal may be associated with incompatibility between the goals of the development project and the larger political context within which it is being implemented. This was a major factor in the failure of a community centred managerial innovation (McMillan 1975). Conflict between company norms and the behavioural demands of innovation was also a key factor in explaining problems in the utilisation of innovation in one particular organisation (Bailey 1973).

3.8 - DISCUSSION

As this chapter has indicated, there are many factors that can be viewed as having an influence on success or failure of new products in the marketplace. Indeed, as research studies have repeatedly shown, the nature of success that can be attributed to any one product is complex and diverse (Quinn 1983, Cooper 1979, Rubenstein 1976, Rothwell and Gardiner 1985). Taking this multifarious character of success into account, and despite differences in analysis, studies of new product success/failure have invariably discussed the use of marketing research, communication, definition of goals, financial resources, size and structure of organisation, and a variety of behavioural aspects of personnel within the company. However once again, the majority of work in this area has been concentrated within the manufacturing sector. This continuing emphasis poses the question of whether factors identified in research studies are applicable to the other sectors such as personal financial services.

There is a need therefore, for more specific research into individual industries. Whilst recognising this limitation, it could be argued that the ability to recognise and overcome potential barriers and stimuli, are the key determinants of successful development activity which transcend differences between sectors. Taking this line of thought one step further, although the

identification of factors that discriminate between success and failure in NPD can be useful in providing blueprints for success, little attention is given within the literature as to how the individual manager goes about ensuring such conditions exist within their own organisations. In addition, is it possible for such factors to be constantly met to ensure product success in any given situation? Simply pointing to these variables may appear unhelpful to the practitioner who has to deal with his own particular situation (McTavish 1982). Better performance in functional areas may not be attainable quickly; in the short term it may be a case of making the most of what resources are available. It is important therefore, for research to identify the specific factors that impinge upon an individual organisation involved in trying to develop successful new products. Furthermore, it is suggested that success is defined from a corporate perspective, and measured after taking into account the barriers and stimuli to the NPD process. Only then will it be possible to ascertain whether a new product is a success given the particular circumstances, both internal and external, facing individual companies.

3.9 CONCLUSION

This study aims to go some way in fulfilling the above requirements by undertaking an in-depth study of the activities of new product development within a consumer orientated sector, ie personal financial services. In addition, the research investigates the barriers and stimuli to successful development from both a sectorial and organisational perspective. The results of the research provide an insight into some of the actions that individual organisations need to carry out, in addition to highlighting the factors that have to be considered, in order to create a window of opportunity for new products in the marketplace.

CHAPTER 4

AIMS AND METHODOLOGY

4.1 INTRODUCTION

The following chapter explores the nature of the study undertaken and its aims. It introduces the personal financial services (PFS) sector as a vehicle for investigating the efficiency of the existing new product development process, in addition to factors influencing success and failure of new products in the marketplace.

The sector has undergone a number of far-reaching changes in recent years which have increased competition, and caused companies to search for ways of differentiating their offering to consumers. New product development combined with a programme of marketing research, has been suggested in the literature as providing the competitive edge that organisations seek (Ennew et al 1988, Girle 1986, Carter 1986). However there are a number of inherent difficulties associated with the nature of service industries that may impede the implementation of marketing research. Therefore the first stage of the research investigates the factors that confer against the use of marketing research in the development of new PFS products.

A prior requirement of the study however was to ascertain whether any new product development was taking place within the sector, and if so whether the prescribed theoretical models were in use. The objectives of the first stage of the research are therefore:

- to investigate the practice of NPD in the PFS sector, and indicate any significant variations from existing models of the process.
- to highlight the use of marketing research during the development of new products and establish whether the use of such techniques contributes towards success.

Although marketing research was identified as a key task contributing to success/failure of new products within the literature search, a number of other factors were also highlighted as impinging upon NPD activity. Organisational structure, staff issues, systems and culture were all seen as having some degree of influence over new product outcomes. The major objective of the second and third stages of the research is therefore:

- to examine the influence of structure, staff, systems and culture upon the development of a new PFS product in greater depth.

A discussion of the rationale for investigating each of these objectives in greater depth is undertaken in this chapter, which also sets out how they were incorporated into the design of the research, and depicts the methods selected for data gathering.

4.2 THE PERSONAL FINANCIAL SERVICES SECTOR

The development of new products has been a particularly neglected area of research in the PFS sector. This is surprising given the increasing emphasis that is being placed upon development activity. Recent structural changes within the industry have forced suppliers to shift the focus of their marketing strategies, and view new and existing products as providing key tactical advantages, (Ennew et al 1988).

As Girle* (Director Domestic Banking Division National Westminster Bank PLC) states:

"The emphasis has shifted from providing a fixed range of products to all customers to targeting services towards particular customers who have specific needs" (Girle 1986).

Historically, the development of new products in the PFS sector has been fairly insignificant, due in part to the limited variation in consumer needs and legislation (Morgan et al 1989). However, a recent survey conducted by Ennew et al, indicated that respondents within the PFS sector are placing increasing emphasis on product ranges to provide competitive scope and differential advantage.

(Ennew et al 1988). This heightened awareness has been brought about, in part, by a number of far-

reaching changes that have been instrumental in transforming the industry, and have had a consequent impact upon the competitive environment (Mitchell 1987). The most significant of these changes can be seen in the shift in the legislative framework, bringing about deregulation and stimulating new forms of competition, (Gardener 1988), (The Building Societies Act 1986, The Financial Services Act 1986). The underlying rationale for the introduction of this new statutory infrastructure, was the attempt by government to increase the level of competition and business in financial services, provide UK companies with a home base for expansion, and allow firms to compete in world markets, (Watkins and Wright 1986, Carter et al 1986). Whilst providing for these objectives, deregulation of financial markets has also prompted new forms of competition from outside the geographical and traditional confines of the sector (Nicholls 1987). A number of foreign competitors have set up operations within the UK, for example Citibank from the US and from Japan (Nicholls 1987). Indeed, as Table 4.1 illustrates, foreign banks have become increasingly important in the UK banking system (Gardener 1988). In December 1987 they owned 62.3 per cent of total UK banking assets, which is very high in comparison to the UK bank share of 37.7 per cent (1).

TABLE 4.1

REPORTING BANKS' TOTAL ASSETS - DECEMBER 1979 AND DECEMBER 1987

	Dec 1979	Dec 1987	Dec 1979	Dec 1987
	£(m)	£(m)	(%)	(%)
Retail Banks*	62198	241235	23.6	25.8
Accepting Houses	10251	36036	3.9	3.9
Other UK Banks	39025	74901	14.8	8.0
TOTAL	111474	352172	42.3	37.7
American Banks	59228	93107	22.4	10.0
Japanese Banks	29165	225753	11.1	2.1
Other O/seas Banks	53329	246853	20.2	26.4
Consortium Banks	10648	17073	4.1	1.8
TOTAL	152370	582786	57.7	62.3
OVERALL TOTAL	263841	934958	100.0	100.0

* Retail Clearing Banks

Source: Adapted from Gardener (1988)

Additional competition has come from other sectors of industry such as retailers and car manufacturers, who have traditionally had little involvement in the provision of PFS products: "financial services are being seen as 'soft options' for retailers such as Marks & Spencer.....the announcements that Volkswagon and even the AA are to start offering mortgages, are the last in a long line of such proclamations by organisations in formerly unrelated fields" (Nicholls 1987).

The impact of technology has been a further key factor in bringing about structural change in the PFS sector (Feeney and Knott 1988). The increase in the use of EFTPOS (Electronic Funds Transfer at the Point of Sale) within retail stores and supermarkets, and the abundance of ATM (Automatic Teller Machines) systems in the high street, indicates the pace of technological change that is taking place (Jones 1987, Madden 1986). In 1977, for every National Westminster transaction through a machine, 15 were carried out over the counter. However, a recent survey investigating the use of automatic machines (Irving and Thompson 1987), reported that half the cash withdrawn from the major clearing bank branches is taken out of ATMs. Although the two methods of transaction are at present equal, counter trade is seen to be on the decline.

The required investment in automatic machines is high, and has therefore encouraged a number of joint ventures between competing institutions to be created, in order to share this cost. The Midland, National Westminster and the Trustees Savings Bank have combined to provide a network of more than 3000 ATMs. The Link system is a further example of such co-operation, Abbey National, Nationwide and a string of smaller PFS organisations are connected to the system, among them the Allied Irish, the Co-operative, and Girobank (Thompson and Irving 1987). This is an additional example of the changing structure of the PFS sector, where such alliances would have been unheard of before deregulation took place, further eroding traditional barriers between competitors. Increasing use of IT within PFS organisations, in the form of on-line support systems, also provides the ability to extend an organisation's portfolio of products (Robson 1988). If the administrative requirements of a new product 'fits' with the existing capability of a company's support system, NPD activity becomes simpler, faster and cheaper to carry out, lowering the traditional entry barriers into product areas that are new to an organisation, (ie cost and time input). At the same time, enhanced access has fuelled a proliferation of products which can be readily substituted, (witness the number of high interest accounts with cheque book/card facilities being offered by the majority of large building societies). Indeed, it could be argued that it is the very similarity in support systems within PFS companies, that engenders the copying of new products. What may have started out as a genuine market innovation, can quickly become one of a number of identical offerings to the consumer. Furthermore, as no

copyright legislation exists to protect new developments it is impossible for any one organisation to claim legal ownership of an innovation.

Further evidence of the increasing competition within the PFS sector, can be found in the shift in existing patterns of distribution, which have led to a search for new distribution outlets and delivery mechanisms, (Watkins and Wright 1986). Indeed Butt, (1988) argues that:

"Whereas at one time each financial service had a settled distribution method, now mortgages are sold long distance, insurance and shares are sold in department stores, estate agents sell houses and everything else and so on. There is no single best way to distribute".

One example of the disturbance of existing patterns of distribution, can be found in the decline in number of bank branches, with many banks reorganising their business into regional and specialised units. In their report 'Banking - the Next 10 Years', Arthur Andersen's have forecast a reduction of 25 per cent in the number of branches in the UK, and Barclays Bank expects to close 500 of its 2850 branches by 1996 (Turner 1985). The building society sector has seen a similar fall in the number of High Street outlets. The new competitive environment requires societies to have a stronger financial base. In the past emphasis was on growth, but now profit is of paramount importance, and societies are looking at overheads, and more specifically branch rationalisation, to see where they can cut out unprofitable expenditure (Dibben 1986 (a)). In addition there has been an increasing concentration of large societies, brought about by merger activity, eg Nationwide and Anglia, and the Cheltenham, Gloucester and Cardiff (Dibben 1986 (b)). They have joined forces to create financial strength, given the increasing competition for mortgages and investment business, and the escalating costs of running small societies due to the administrative burden of the new legislation. Furthermore, Ferguson (1988), argues that the cost of compliance, (2) for firms within the life assurance sector will also be high, causing a concentration of market power among the largest and most powerful life companies (3). Indeed, industry commentators believe that consumer awareness of insurance selling will grow, and subsequent sales will be concentrated to large, well known organisations with good reputations. With

such matters at stake, many organisations are concerned with revising their corporate image (Mitchell 1987 (a)).

The general perception within the overall PFS sector is that competition has increased significantly as a result of the above factors, but the increase is difficult to measure and evaluate (Gardener 1988).

However, it has been postulated that these structural changes in the operating environment, have determined the need for a significant re-adjustment and development of marketing strategies, which take into account the need for some form of differentiation from competing organisations (Ennew et al 1988, Mitchell 1987):

"Undoubtedly, every major institution wants to be thought of as different, and ultimately as offering better value and different service to the customer. Thus being seen to be different is a prerequisite for a competitive edge in the marketplace..." (Planned Savings 1986).

Strategic differentiation is seen as enabling an organisation to create a defensible position through either differentiating its product offering from that of other firms, or differentiating its support system, eg the advice, instruction and assistance available to customers (Mathur 1986).

One visible attempt at support differentiation can be seen in the form of corporate identity advertising, which has expanded dramatically. According to the Mintel (1989), and as recorded by MEAL, financial advertising spend in the press, on television and on radio totalled £453 million for the year ending September 1988. In 1981, the advertising of financial products accounted for some 6.5 per cent of the total amount of advertising for all consumer products and services, by 1987 this had grown to 11 per cent. This intensification in advertising activity, in addition to conveying the positive aspects of the organisation and the support service provided to the consumer (eg in the form of advice, welcoming attitude, impartiality (4)), is also associated with communicating information about the increasing number of new products entering the market. Certainly, some PFS organisations such as the Midland Bank and the Abbey National are using television advertising to introduce new ranges of products. For example, the introduction of Vector and Orchard accounts by the Midland, and the similar launch of the 5 Star High Interest account by Abbey National.

Although figures tracking this suggested increase in the number of new PFS products in the market do not exist, it is evident in amount of cross-selling that is taking place within the industry. The majority of products available to the consumer are built around differing combinations of the core elements shown in Table 4.2:

TABLE 4.2

CORE ELEMENTS OF PFS PRODUCTS

CORE ELEMENT	PFS PRODUCT
Payment Transactions	cheque accounts
Savings Deposits	high interest accounts
Consumer Credit	credit cards and loans
Housing Finance	endowment mortgages
Investments	personal equity plans
Insurance	health/life policies
Pensions	unit linked pensions

Structural changes have not only increased competition with the sector, but have also resulted in existing demarcation between financial institutions and markets being significantly eroded. Many companies have been stimulated by competitive pressures to offer a wider and more sophisticated range of PFS products (Gardener 1988). For some organisations this has represented the opportunity to diversify into some or all of the product areas listed in Table 4.2, which were traditionally the preserves of others. For instance, building societies, for many years, supplied a single product, (mortgages), in a sellers' market protected by a price cartel. This monopolistic situation has now

changed and the supply of mortgages is one of a number of areas in which building societies face price and other forms of competition from banks, insurance companies and specialist suppliers (Gardener 1988).

The building societies' response has been to diversify into several new product areas and lines of activity (Planned Savings 1987 (a)). Table 4.3 indicates some of the new products offered by the largest societies, and the movement into new areas such as estate agency. This move has been partially viewed as being an ideal opportunity for cross-selling other products, indicating how far some societies have moved away from their traditional single product dependence (Planned Savings 1986).

Table 4.3

NEW PRODUCTS OFFERED BY THE LARGEST SOCIETIES

Society	Insurance	Cheque Pensions Account		Investments	Estate Agency
Halifax	*	*	*	*	*
A.National	*	*	*	*	*
Nat.Anglia	*	*	*	*	*
L.Permanent	*	*	*	*	*
All.& Leics	*	*	*	*	-
Woolwich Eq	*	-	*	*	*
Nat & Prov	*	*	*	*	-
Yorkshire	*	-	*	*	-
Britannia	*	*	*	*	*
Chel& Gloucs	*	*	*	*	-

Source: Adapted from Planned Savings, (1987 (a)).

This review of the PFS sector has so far concentrated upon supply side changes that have taken place, however attention also needs to be given to ascertaining whether any shifts in demand for products and services have occurred. That consumers are better educated and informed about financial products, and therefore more discerning in their purchasing, is a general comment that has been repeated with much frequency in the PFS and marketing literature (Carter 1986, Girle 1986). There has been a change in the manner in which consumers invest their savings; the British Telecom share issue attracted 1.6 million investors. Unit trusts have enjoyed a similar popularity, July 1987 quarterly figures showed funds under management by the unit trust industry had risen to £44.2 billion and the number of unit trust holder accounts exceeded 4 million:

"The battle is...fiercely competitive in the savings market, as the British investor becomes increasingly aware of the various outlets for his spare cash and its potential earning power. Equities, for example, have enticed many a traditional investor away from his building society account" (Planned Savings 1987 (b)).

However, although there has been an increase in demand for certain products, such as mortgages, investments and pensions, the proliferation of products that fulfil similar functions can seriously inhibit the consumer's ability to differentiate between them. Frith (1987), for example, highlights the lack of differentiation made between brands, and an overall apathy and lack of interest both in the market as a whole, and in the products available. Furthermore, a recent report by MINTEL states that:

"adults in general are massively ignorant or unsure about the basics of many financial instruments. This is less true for ABC1 men compared with C2DEs and relatively poor women. Even so, however, the former are not as well informed as they should be and in that sense financial advertisers still have much ground work to complete."

Indeed, the general convergence of offerings from previously widely separated, specialist sectors of the market could causing further confusion:

"customers' available choice has widened considerably, and their needs can be met by a variety of similar, or substitutional products this allied with all the recent mergers and alliances, results in a

blurring and confusing of the previously distinct clusters of suppliers and products that customers were used to" (Carter 1986).

Again, these comments emphasise the need for organisations to differentiate their offering, in order to avoid being viewed by consumers as just a part of an undifferentiated mass.

Several commentators see new product development as providing this edge (Girle 1986, Carter 1986, Ennew et al 1988), especially when it is combined with a marketing research programme that identifies customer needs:

"The product is the instrument through which a need is met....it is not an end in itself. Identifying customer requirements correctly is the challenge. A misjudgement here can be a very costly embarrassment" (Girle 1986).

Moreover, as the literature research has shown marketing research has been identified in several studies as a key factor in promoting new product success (Cooper and Klienschmidt 1987, Rothwell 1976). However, although the present study identifies PFS organisations' offerings to consumers as products, there are inherent service elements in the fabric of PFS products which cannot be ignored. Furthermore, these innate characteristics which are common to a greater or lesser degree to all service industries, impinge upon the way in which marketing research is carried out:

Intangibility - this can be defined as the difference between what the consumer purchases and what it represents. For example, the tangible element of a credit facility may be a plastic card, but it is the intangible attributes that represent the facilities that consumer requires, eg ease of payment, accessibility and other symbolic features such as status and power. The difficulty of identifying what a proposed new product represents to the consumer is a recurrent problem for market research practitioners in the sector.

Point of Sale - Even where a financial service is relatively routine and standardised, as in consumer instalment lending, where part of the process is automated and the design of the system does not allow any part of the service to be changed in any way, the dilemma of ensuring quality and consistency of

performance at the point of sale is ever present. The execution of the service can be affected by such factors as the staff-customer interface, the financial acumen and attitude of the customer, and the physical environment in which the transaction takes place.

The influence of such factors indicates that divergence between the design of a new product and its actual delivery is an inherent problem faced by PFS providers, and poses difficult questions for marketing research practitioners. How can a new PFS product be tested if its performance is never uniform and is influenced by several peripheral variables outside of the company's control? In addition, if the consumer is unable to understand the complexity of a new concept, then it is questionable whether marketing research techniques testing consumer reaction can be carried out when developing new products in the PFS sector.

To investigate whether these factors do mitigate against the use of marketing research, it was decided to concentrate the first part of the research on investigating its use in the development of new PFS products. However, a prior requirement was to ascertain whether any new product development was taking place, and if so whether the prescribed theoretical models were in use.

The objectives of the first stage of the research are therefore:

- to investigate the practice of NPD in the PFS sector, and indicate any significant variations from existing models of the process.
- to assess the relative use of marketing research during the development of new products and establish whether the application of such techniques contributes towards success.

Whilst marketing research was identified as a key task contributing to success/failure of new products within the literature search, a number of other factors were also highlighted as impinging upon NPD activity. Organisational structure, staff issues, systems and culture were all seen as having some degree of influence over new product outcomes. The major objective of the second and third stages of the research is therefore:

- to examine the influence of structure, staff, systems and culture upon the development of a new PFS product in greater depth.

Keeping these issues in mind, it was decided to divide the research programme into two sections, and employ different data gathering techniques at each stage. This was due in part, to the lack of empirical research into NPD and marketing research in the PFS sector, which could provide information about issues previously addressed. There was a need, therefore, for a structured survey that established the actual practices of such activities across the PFS industry, allowing for a greater understanding of the dimensions of the NPD process. Apart from the requisite for a large amount of data on NPD and associated activities, an in-depth study was also required, in order to explore some of the other behavioural and organisational factors (eg structure, staff, systems and culture), which the literature review had identified as acting as possible barriers or stimuli to successful new product development. The following section looks at how these objectives were incorporated into the body of the research, and at the same time provides the rationale for its design.

4.3 RESEARCH DESIGN

(i) - Planning the Study

It was apparent from reading some of the extensive literature on the various data capture techniques available, that there were several possible approaches to structuring the research programme.

Although this presented an opportunity to plan the study in as effective a manner as possible, at the same time, decisions about the appropriateness of each research method had to be made. As Dickens (1987) states:

"there is never any one right way of doing things, no ideally appropriate sample size and structure. Furthermore, a research design which seems, judgmentally, to be the best solution, may not prove feasible because of timing or budgetary constraints".

In order to alleviate the risk of poor design and help shape the research programme, Dickens further advises that the following areas are specified:

- (a) The population - eg the market or consumer characteristics which will guide the sample design.
 - (b) Size and structure of the defined sample.
 - (c) Basic data-gathering techniques to be employed - eg qualitative or quantitative methodology, if qualitative, individual interviews, discussion groups etc.
 - (d) The question areas that needed to be covered.
- ' Each stage of the study was therefore designed to incorporate the most appropriate data capture method that would meet the prior objectives of the research. A discussion of the type of population, sample structure and data gathering techniques selected at each stage of the study now follows.

4.4 STAGE 1

(i) - The population

In terms of defining the population to be covered, it was decided to concentrate the research on the major providers of PFS products to the consumer. These were defined as:

banks

building societies

life insurance companies

Although PFS products are provided by other sub-sectors of the industry, such as unit trust organisations, stockbrokers, licensed-deposit takers etc, in view of timing and financial considerations, it was decided to confine the research to the above providers. A comprehensive list of the 3 sub-sectors in the UK, at the time of the study, was obtained from the following Year Books:

Building Societies Yearbook

The Insurance Directory and Yearbook

Bankers' Almanac and Yearbook

Inclusion of organisations is free, and information is based upon the completion of questionnaires sent out by the publisher of each yearbook, which are updated on a yearly basis. Although other sources of data could have been used for the creation of the population (eg Compass, Times 1000, Kelly's Directory), the Yearbooks were viewed as providing the most comprehensive and up-to-date sources of information, which include full names of organisations and contact addresses.

As previously little was known about the practice of NPD within the sector, it was more conducive to the aims of the research to try to gather as much information as possible, and therefore, the total defined population was included in the survey. This represented 392 PFS organisations, which were further classified by type:

106 banks

164 building societies

122 life assurance companies.

A further reason for the all-inclusive nature of the survey, was that it was felt to be important to discover whether any significant differences between the development activities of small and large organisations existed. Indeed, size was a factor that the literature review highlighted, although there was some disagreement of its influence upon NPD activity (Kimberley 1978, Moch and Morse 1977). Furthermore, as large companies appear to have more resources at their disposal, it was felt that they would be in a better position to employ sophisticated marketing methods, and therefore this distinction would allow for this assumption to be tested.

However, difficulties were faced in measuring size of firm across sub-sectors within the PFS industry, due to the lack of consistent measure of turnover or profit. Therefore, number of employees was thought to be the most appropriate indicator of size:

Small Companies = Under 1000 Employees

Large Companies = Over 1000 Employees.

4.4 (ii) - Methods of Data Collection

Extensive information was required in order to obtain a full insight into the practice of NPD and the accompanying use of marketing research in the PFS sector. Therefore, a number of answers to subjects that could not be readily explained by documentary research, or observation alone were required. This indicated a need for a survey which would be large enough to ensure adequate representation of a range of NPD and market research activity. The first stage of the research programme therefore consisted of:

- (a) a preliminary qualitative study, exploring several organisations experiences of NPD and related issues, which provided a framework for the subsequent survey.
- (b) a semi-structured questionnaire, designed to elicit factual data about the role of marketing research and NPD across a large number of organisations within the PFS sector in the UK.

In order to gain information that would help plan the structure of the questionnaire, a number of interviews were held with practitioners and consultants in the PFS sector. The aim of this stage was to provide a qualitative understanding of NPD practices and the use of market research in the sector which would:

- help guide the design of the questionnaire
- steer the subsequent interpretation of the results of the latter study.

The strength of qualitative research for preliminary exploration is, as Moser and Kalton (1979) state, that it 'digs deeper', and in so doing provides a richer understanding than more formal techniques. In addition, a useful set of exploratory interviews is seen in the literature (Moser and Kalton 1979, Patton 1982) as being able to:

" broaden and deepen the original plan of the research, throw up new dimensions to be studied, suggest new ideas and hypotheses and so on".

The sample for the personal interviews resulted from prior contacts with some of the companies involved. Introductions to other organisations were also provided by the person interviewed. All organisations were chosen because they were seen to be prime movers in the field of NPD. This was defined as having a good record in introducing new products to the PFS market, which were seen by the rest of the industry as innovative. This information was provided by a review of journals and newspaper articles on new products launches during the period from September 1984 to August 1986.

Interviews took place with executives involved in NPD from a cross section of small, medium and large PFS institutions, (banks, building societies and insurance companies), in order to obtain a wide range of opinion. In some cases, the responsibilities of the interviewee embraced development activities across the whole organisation, in other companies of greater size, responsibilities were confined to an operating division in the company. A number of consultancy companies, (marketing research, new product and advertising agencies), were also interviewed, who provided expert advice about NPD activity to PFS organisations. It was felt that informants from consultancies could supply more objective information about the practice of NPD in PFS companies, balancing any bias towards over-emphasising successful developments, that providers of PFS products may have introduced.

The interviews took place in the latter part of 1986, and consisted of 20 in-depth discussions with respondents from the selected organisations. The aim of the interviews was to gain an initial impression of the state of the art of new product development, and discuss factors that were thought to stimulate or impede the process. A wide range of opinions were expressed during the discussions, (each lasting for approximately 1 hour). Topics focussed upon included the incidence of new product development, the use of marketing research, organisation of development, and competitor activity.

4.4 (iii) - The Survey

The literature review and data gathered during the exploratory interviews provided the framework for the survey. A postal questionnaire (see Appendix 4) was used as the main vehicle for data gathering, as it had been decided to include all PFS firms within the specified sub-sectors, in order to get as full a picture of the realities of NPD as possible. The constraints imposed upon the study by time and cost considerations did not allow personal visits to be made to all companies in the population, and therefore methods such as interviewing and observation were not applicable.

The use of telephone interviews was an alternative method that was considered due to its relative savings on time and money. However, as a uniform picture of NPD activity was required, it was felt that this data capture method could introduce a large amount of variability in response due to such factors as, interaction between interviewer and telephone respondent, and the possibility that the questionnaire might not be adhered to. A postal questionnaire, therefore, offered a cost effective way of collecting a large amount of information within a short time frame.

The advantages of using self-completion questionnaires are as follows:

- (a) it is relatively inexpensive
- (b) it does not require trained staff or interviewers
- (c) processing and analysis is much simpler
- (d) bias resulting from the preconceptions of the interviewer is eliminated.

Furthermore, the method of obtaining data by questionnaires can sometimes prompt answers by providing responses to indicate a situation that may not exist. This is particularly true for highly sensitive issues such as NPD activity. In this context it was felt that this danger was less likely to occur in a postal survey where respondents could complete at leisure and without pressure.

These practical aspects played a large role in the planning of the survey, as did the appropriateness of the chosen method, and the level of complexity of the information required. The planned questionnaire was not of a complex nature, in that its primary purpose was to gather information on topics that respondents were thought to be conversant with. In addition, it was extremely likely that respondents

study which offered benefits to their institution, and possibly to themselves. A major disadvantage, however, associated with this method of data collection, is the problem of non-response. This may have occurred during the study due to the nature of the research topic, for example:

- Respondents might have been inhibited in answering questions due to fear that their answers might reflect unfavourably on the company or their own personal ability. As a result, responses could have indicated a more positive situation than the one that existed in practice.
- Because of the issue of secrecy surrounding NPD activities, some respondents might have felt that in the interests of the company it was unwise to be fully informative.

In order to alleviate such effects of bias, it was made clear to respondents that the research was concerned with distinguishing between theory and practice. Assurances were also given that answers to both the interviews and surveys were strictly confidential and that full anonymity would be preserved.

Non-response rates are also inevitably a problem, because of the possibility that non-respondents could differ significantly from respondents. Failure to respond may be caused by many factors. In this case, those companies who were not satisfied with their performance in development may not have replied. Alternatively, non-response may have been closely related to lack of a marketing department, so that results overstate the position across the personal financial services sector as a whole. In order to improve the response rate, the following steps were taken as suggested by (Moser and Kalton 1981, Chernatony 1987):

- (a) a covering letter was sent using college headed notepaper (see Appendix 3)
- (b) the letter stated the purpose of the research in simple terms
- (c) results of the survey were made available as an incentive to return completed questionnaires
- (d) a hand written note was added
- (e) as far as possible multiple choice and dichotomous questions were used in the questionnaire
- (f) space was allowed for respondents to comment on any particular aspect of NPD
- (g) a self addressed envelope was enclosed

- (h) a reminder letter and second copy of the questionnaire were sent to respondent organisations after a period of 5 weeks had elapsed and no response had been received.

4.4 (iv) - Designing the Questionnaire

Recognising the limitations of the postal method, it was still thought to be a particularly useful way of collecting data from a large sample and was consequently employed. Several literature sources provided practical guidance in designing the questionnaire, (Moser and Kalton 1979, Belson 1985, Bailey 1987). Where possible multiple choice and dichotomous questions were used, although inevitably some open-ended questions were necessary. This was due to the absence of previous research into NPD in PFS organisations. It was apparent that there were a number of areas about which little was known, such as the reasons for not conducting marketing research during the development process, where an open-ended approach was required to give greater detail than could be provided from a set of predefined responses. The layout was arranged with objective of gaining a response and questions were therefore set out in the following logical pattern:

- NPD activity
- stages of development
- organisation and structure
- market research activity
- demographic information

Attention was paid to ensuring that the appearance of the questionnaire made it look simple to complete and that it was attractive. As part of this aim, no data processing codes were included on the questionnaire. Unambiguously phrased questions using simple words were employed and clear instructions given. In addition, as there is a learning process associated with the completion of postal questionnaires (Chernatony 1987), easier questions were placed at the beginning of the survey.

4.4 (v) - The Pilot Survey

To reduce any difficulties that respondents might experience with the postal survey, and to determine that each question would be clearly understood, a pilot survey was undertaken. Ten practitioners who had taken part in the exploratory interviews were asked to review the proposed covering letter, and complete the questionnaire. On the basis of comments received, changes were made which were further tested until the questionnaire was fully understood. It was ascertained that completion would take approximately 20 minutes.

4.4 (vi) - Definition

A particular problem faced in the methodology was how to define a new product. For example, a new addition to a company's product portfolio might be viewed as a brand new innovation or, alternatively, as a modification to, or rejuvenation of an existing product. This issue has already been addressed in the literature search, where new product development was defined as a generic term that encompassed all types of activity, ranging from line extensions to innovations. However to simplify this definition for the purposes of the questionnaire, and after consultation with respondents in the exploratory interviews, a new product was interpreted as something with a new name. It was felt that this provided a simple and common reference point for respondents in each market sector.

As exceptions to this definition might have existed, a space was left for respondents to include their own interpretation if necessary.

4.5 STAGE 2

4.5 (i) - Introduction

In order to develop and add to the findings of the survey, it was decided to concentrate the second stage of the research on exploring the NPD activities of a particular organisation. The postal questionnaire

had been designed to give a broad representation of NPD and the role of marketing research across the PFS sector, and as such, could not provide very detailed analysis. Therefore a more descriptive study was undertaken, to militate against any possible shortcomings in the survey data.

The objective of stage 2 was to examine the influences of organisational and behavioural factors such as structure, systems, culture and staff, upon the market performance of new products. A qualitative investigation of a specific new product through its development and subsequent launch into the market, presented the opportunity to take a more grounded approach (Glaser and Strauss 1967) to investigating success and failure in NPD than previous studies, which had concentrated upon more quantifiable measurements of success and failure (Cooper and Klienschmidt 1986, Rubenstein 1976, Rothwell 1976). In addition, by focussing attention upon the realities of NPD activity within the setting of a PFS institution, the research provided insight into the gap between theory and practice.

Initially, a comparative analysis of a bank, building society and life assurance company was planned. However, access to information was limited in terms of locating organisations that were willing to co-operate in the study. A major reason for this restriction, was due to the timing of the research. The study coincided with the introduction of the Financial Services Act, Building Societies Act and, new pensions legislation, which disallowed many of the PFS organisations approached from taking part in the second stage of the research. In addition, lack of co-operation may have been partly instigated by the issue of secrecy, which, as already indicated, surrounds NPD activity.

Apart from these restrictions, several requirements needed to be met by the case study organisation. Firstly, it was important that the selected company had developed a new product during the time frame of the project. This was because structural changes in the sector had brought about a new competitive environment, into which new products were introduced. Although no comparative data was available, it was hypothesized that new products launched since the new legislation faced many different barriers and stimuli to success.

A further requirement of this stage of the research, was that the new product was in fact one that could be classified as an innovation. As the literature review had already highlighted, many developments are

stimuli to success, the product in question had to be perceived as successful by the co-opted organisation and, more objectively, the wider PFS industry.

4.5 (ii) - The Organisation

A major life insurance organisation, Abbey Life, was chosen and agreed to take part in the second stage of the research study. Selection was based on the following factors. Firstly, the company had developed and launched a new product called Living Assurance in June 1987. It was defined as a dread disease policy that could be sold as a stand alone product, or as an ancillary benefit to the company's existing unit-linked life policy, Cover-Master. Living Assurance was viewed as being innovative by the media and the sector (see Appendix 5 for articles, cuttings on its launch), thus meeting with the requirements of the research. Secondly, the headquarters of Abbey Life were situated in Bournemouth, where the researcher was also based, permitting ease of access to information. The company also had a good geographical spread of branch offices across the UK which could be incorporated into the study to provide more detailed information of post launch activity.

4.5 (iii) - Rationale

At the outset, it was apparent that this case would obviously lead to bias in the findings of the study. This was due to the nature of the inherent features of life insurance, mainly its channels of distribution, which have traditionally been very different to those of banks and building societies. However, further consideration indicated that an investigation of this particular company, could be useful in highlighting several current issues that had implications across the PFS sector. These concerns centre around the relationship between role of the consumer, product attributes and channels of distribution. A discussion of their relevance to other types of PFS organisations now follows.

consideration indicated that an investigation of this particular company, could be useful in highlighting several current issues that had implications across the PFS sector. These concerns centre around the relationship between role of the consumer, product attributes and channels of distribution. A discussion of their relevance to other types of PFS organisations now follows.

Until recently, banks and building societies have relied heavily upon one type of distribution channel, ie that of customer initiated contact, in the form of conducting transactions in-branch. Such transactions normally involve products that customers are very conversant with, are easily understood, and have little risk attached to purchase (eg deposit/withdrawal of cheque accounts, purchase of traveller's cheques etc). Contrary to this, high risk, complex PFS products are sold through mediums where close attention is paid to explanation, and increasing consumers' awareness of their need for certain products. This has been particularly true for the life insurance sector where industry participants stress that products are sold and not bought. Examples of principal product categories in this sector are annuities, endowments/endowment mortgages, pensions/pension mortgages, permanent health insurance, term assurance, whole life assurance, and linked-life assurance (Feeney and Knott 1988). Combinations of these products are used to provide protection and/or investments which may have tax advantages. Distribution has mainly been instigated through a direct sales force, and has taken place in the client's household, although other supplementary channels are used, such as direct marketing and brokers (5,6). Before the changes in the regulatory framework, the traditional demarcations between banks, building societies and life insurance companies meant that most transactions were conducted in-branch in the first two sectors (witness the number of high st branches throughout the UK), and through the medium of direct sales in the latter. However, as previously stated, much diversification is taking place across the PFS sector. For example, Feeney and Knott (1988) indicate that there has been an increase in the number of banks and building societies, along with estate agents, solicitors, and accountants, who sell life assurance products in addition to their mainstream activity; (this figure is not however quantified).

Such moves have been brought about by the principle of polarisation, adding a new dimension to competition within the sector. The rules on polarisation (7) contained in the FSA, distinguish between organisations that are tied, in essence selling the products of one company, and those that are independent, ie offering the consumer a number of competing lines (8, 9, 10). Competition, therefore, no longer results solely from the traditional demarcations between sub-sectors, but more importantly,, also on the basis of differences between tied and independent organisations. As Table 4.5 indicates, all but one of the largest building societies have decided to be independent, whereas 3 of the big 4 banks have chosen the tied route. Barclays and Lloyd's already had in-house life offices, so that their decision can be viewed as an attempt to build their own positions in the life insurance industry. Commercial Union and Friends Provident are known for their innovative exploitation of technology; there has been some speculation that it is for this reason that Midland and Abbey National selected these respective organisations (Feeney and Knox 1988).

TABLE 4.4

POLARISATION: BANKS AND BUILDING SOCIETIES

BUILDING SOCIETIES*	POLARISATION DECISION
Halifax	Independent
Abbey National	Tied with Friends Provident
Nationwide Anglia	Independent
Alliance & Leicester	Independent
Leeds Permanent	Independent
Woolwich Equitable	Independent
National & Provincial	Independent
Yorkshire	Independent
Britannia	Independent
Cheltenham & Gloucester	Independent
BANKS	
Barclays	Direct selling own products
Lloyd's	Direct selling own products
National Westminster	Independent
Midland	Tied with Commercial Union

*10 Largest Societies

Source: Adapted from Feeney and Knott 1988.

What is clear is that the use of a direct sales force as a channel of distribution is not set to remain the domain of the life insurance sector. Indeed, it is argued that banks and building societies will also use this selling medium, whether through the creation of their own sales force, or through the use of a tied insurance company. One could argue that taking the latter approach does not involve the bank or building society in the actual delivery process.

In response, however, it should be stated that tied or independent, there are implications for an organisation's corporate image. For example, a bank might recommend a particular life insurance company's products to a customer who is then visited by a member of this company's salesforce. Any

subsequent problems encountered by the customer, eg the sales person's performance or the product sold not meeting prior expectations, not only reflect upon the life insurance firm, but also upon the corporate image of the bank, as it is they who first initiated contact with the customer.

However, there are a number of organisational and behavioural issues associated with the employment of direct sales force in delivering both new and existing products cannot be implemented however, without considering the following issues. The salesperson, in some cases, is the only direct contact that the customer has with an organisation, and therefore it is they who set the tone of personal service and create an image for the individual organisation. This form of involvement, can, however, introduce a degree of variability and inconsistency to the product offering. Variability occurs because sales personnel differ in their technical and customer relation skills, in their personalities, in their attitudes towards their work, and even their attitudes towards the products that they are selling (Firth 1987). Performance can fluctuate from day-to-day and as a result there is not always a given level of consistency in the delivery of a PFS product. Furthermore, involvement of direct sales personnel in consumers' decision to purchase can be high. Such influence is most prominent for complex products, such as some of the aforementioned types of life insurance product (Solomon 1986). Bettman and Park (1980), argue that the low degree of information acquired by consumers about such complex products, may be due to the lack of knowledge structures necessary to put such information to use. In these instances, Solomon (1986) believes that sales personnel, who are viewed by the consumer as experts, have great powers of influence over purchase decisions, and can take on the role of 'surrogate consumer'. This concept denotes that responsibility for choice of product is transferred from the consumer to the expert sales person, whose impressions of a product offering may be instrumental in determining its eventual success or failure in the marketplace.

Although there exists a number of potential problems for a PFS company employing a direct sales force to merchandise its products, at the same time this method of distribution can provide an important

means of differentiation through the standard of staff and quality of service, advice given (Firth 1987). The question then of harnessing this potential marketing tool is one that all PFS organisations employing direct sales forces need to address.

4.5 (iv) - The Case Study Approach

A case study approach was employed to evaluate the development of a specific new product from idea generation to post launch. Apart from providing more in-depth information about the NPD process, this approach also allowed for the exploration of the influences (in terms of barriers and stimuli), of behavioural and organisational factors upon NPD within a PFS organisation.

The basic rationale for the case study approach is to assemble information as comprehensively and systematically as possible about the selected case organisation/s. Case information can include interview data, observational data, company information such as financial reports, and any other detail that may be of relevance to the study (Hart 1989). The strengths of this approach are found in its ability to provide rich descriptive detail, conveying a feeling of what it is like to experience an organisation, event or problem from the 'inside' (Clegg et al 1985). Additionally, it allows for the discovery of grounded theory (Glaser and Strauss 1967), and the comparison of existing literature and theory with what actually happens in reality.

For all its appeal on an experiential basis, criticism has been aimed at the use of the case study method, and is associated with the issues of verification and generalisation (Guba and Lincoln 1981, Campbell and Stanley 1966). Addressing the question of verification first, it has been argued that a single one-off case cannot afford the possibility of establishing causal relationships between the variables encompassed in a study. A single case does not offer alternative explanations for causes of action or events; rival hypothesis cannot be tested and accepted or rejected. Secondly, it is assumed that the case

study method is inherently subjective in nature, data selected, presented and interpreted being seen to be idiosyncratic and partial.

The main criticism associated with the second issue of generalisation, is that the one-off case symbolises a unique occurrence and is not representative of a larger population. As such, therefore, it does not allow for scientific generalisation. In answer to such objections, it could be argued that all research methods are selective in that any observation is theory and value laden (Kuhn 1970). Differing views and interpretations of the same piece of empirical data by qualitative and quantitative researchers, will not be caused by the outcome of differences in analytical methods alone. Such variations will also be attributable to each researcher's frame of reference, ie the basic paradigm within which human beings view their surrounding environment, (Clegg et al 1985) (11). Moreover, as Clegg et al (1985) argue, there is no reason why case study research should be more biased than more quantitative, scientific approaches. There are several techniques available in case study work that allow for the validity and reliability of the research to be verified. These include triangulation sources such as survey feedback and the agreeing of interview notes (Jick 1979).

There are also several problems to be found in quantitative research design which effects the ability to generalise results. Deming (1975), argues that statistical inferences drawn from such studies can, in theory, only be extended to material in an identical frame. Therefore, in the strictest sense of the word, subjective judgement is required to ascertain the extent to which findings can be generalised given the sampling limitations and study parameters. Similarly, subjective judgement is required in generalising case studies, although it is recognised that in some research (as with the current study), where the emphasis is phenomenological, it is inappropriate to attempt to generalise. However, as Clegg et al (1985) argue, it is pertinent and possible for findings to be generalised by the audience:

"who can share the meaning they embody and identify them with their own experiences and settings".

4.5 (v) - Data Collection Methods

Using the case study framework, information was gathered through the following channels:

- (a) the headquarters of the respondent organisation
- (b) a selected sample of branches across the UK

A discussion of the methods selected to capture data at the different sites now follows.

(a) The Headquarters

Focus interviews were held with a number of individuals who had been involved in the development of the new product. This method of data capture was selected because it affords a source of detailed, descriptive information that cannot be provided by more quantitative approaches. It also allows for more involvement of respondents in deciding what the relevant aspects of a particular situation are, indeed Patton (1982) states:

"The fundamental principles of qualitative interviewing is to provide a framework within which respondents can express their own understandings in their own terms".

The researcher was therefore able to investigate emotions, motives and basic attitudes, gaining a fuller understanding of respondents, who were often encouraged to disclose quite sensitive information. A more structured method of data capture would not have allowed such insight (Jick 1979, Deming 1975, Hart 1987), as it is not appropriate for probing, searching questions (Moser 1967). At the same time as allowing for greater disclosure, there is a need to control focus interviews in order to extract the detail required. This is viewed within the literature as an important skill that the interviewer needs (Bailey 1987), indeed without adequate direction, the interview can only generate meaningless data. In the present research the time allotted for each interview did not allow for irrelevant or long-winded responses to be continually made. In order to safeguard against this possibility, the following control mechanisms, recommended by Patton (1982), were built into the interview design:

- Knowing what needs to be discovered

- Asking the right questions to get the kind of answers required
- Giving appropriate verbal and non-verbal feedback to the respondents

To ensure all relevant topics are covered, Patton also recommends that an interview guide is used to provide a basis checklist during interview:

"The guideline provides a framework within which the interviewer....develops questions, sequence those questions, and make decisions about which information to pursue in greater depth" (Patton 1982).

The format used in the postal questionnaire was therefore copied for the purpose guiding of the interviews. It provided a basic outline of all possible stages of the NPD process and associated marketing research activity. Sections on post launch activity, organisational structure and organisation of NPD were also included to provide more in-depth information.

Open ended questions were employed during the interviews to allow for individual perspectives and experiences to emerge, and to minimise the problem of predetermined responses. Questions needed to be clear and unambiguous, in order to guard against respondents experiencing feelings of hostility, ignorance, or confusion (Patton 1982). It was necessary, therefore, to understand the general terminology used in the life insurance sector and more specifically the terms relating to the new product. This helped to establish rapport with respondents, and in turn improved the quality of the data gained.

A number of key individuals were interviewed at the organisation's headquarters to elicit information about the development of the product in question. Over a 12 month time period, 25 interviews were conducted with a total of 10 respondents. The sample was selected with the help of the company's marketing research manager who was cognisant with which personnel had involvement in the development of the selected new product. It included both managers and line staff from a number of different disciplines. For example, two of the managers interviewed had been co-opted from their normal duties, and given the responsibility of managing the development of the new product from idea generation to launch. In other cases, respondents provided support to the NPD project alongside their normal day-to-day activities. All respondents were very conversant with the development in question,

and were able to recall the events that had taken place in an in-depth manner. Several respondents were interviewed a number of times as new issues emerged and different events needed clarifying.

In order to supplement the information provided by selected personnel, interviews were held with the organisation's re-assurers who had been involved in the development of the new product.

Documentary analysis was also undertaken, and the following sources of information were looked at:

- internal assessments of the development of the product
- actuary reports
- the new product specification plans
- reassurers NPD guides
- supporting promotional literature
- sales records

Access to company documents and records was given by the company with the proviso that confidentiality of information was respected. It allowed for a 'behind the scenes' look at the NPD process and how the new product came into being. For example, the new product specification reports revealed the involved logistics of the development. Only through closer analysis of these documents did a picture of the complexities of timing and co-ordinating the development emerge. Without having looked at supporting documents and records the extent to which the company had prepared for the new product would have been missed.

(b) - The Branches

Head Office records indicated that during the period of June 1987 to June 1988, Living Assurance had been successful in some of the 75 branches controlled by the company, whereas in others it had been classed as a failure (see Appendix 2 for the complete record of total sales of Living Assurance during this time period). Success was classified by the company as achieving a target of approximately 10 percent of total in-branch production, and failure below 5 per cent. In fact, the average performance of

the product during this period was 8.6 percent, representing an approximate average of 92 cases per branch. In order to discover whether there were any significant differences between low and high performance branches, selection of sites was based upon the number of Living Assurance products sold from June 1987 to June 1988. In addition to performance differentials, some attempt was made to spread the sample across different regions of the country. This was undertaken because differences in sales were also thought to be associated with the socio-demographic profile of consumers and associates within the different operating areas. Such factors helped to determine the final sample structure and, with the advice of the company's marketing research manager, 10 branches were selected to participate who had experienced sales of the new product ranging from 4 to 18 percent of total in branch production. Table 4.6 indicates the areas in which the branches were sited, in addition to total sales of Living Assurance achieved during the period of June 1987 to June 1988:

TABLE 4.5

SALES OF LIVING ASSURANCE ACROSS SELECTED ABBEY LIFE BRANCHES

Branch	No. of Cases	% of Total
	June 87-June 88	Production
Birmingham	113	5
Bournemouth	117	5
Bristol	43	4
Coventry	16	4
Hounslow	573	18
London Central	273	8
Manchester Central	264	8.5
Mayfair	155	13.5
Newbury	190	11
Norwich	62	8

Source: Abbey Life Sales Records June 1987-June 1988.

The pattern of sales within branches was a further consideration in the design of this stage of the study. Although individual sales performance records were not available in the selected branches, it was clear that some members of staff had not contributed to sales of Living Assurance. There appeared to be pockets of personnel who had succeeded in selling the product and others who had not. However, failure to sell a policy could have been attributed to a customer's decision not to purchase after having been presented with the product. Alternatively, the reason for lack of success may have been due to an individual's decision not to show the product to the consumer, (eg complying with best advice rules), or more drastically the decision to exclude it from the portfolio of products on offer. As the direct sales force was made up of tied associates who were self-employed there was little that the company could do to stop personnel from taking the latter decision.

It was clear that the decision to adopt or reject a new product was an important factor in the market outcome of Living Assurance. Underlying causes for success and failure, which were grounded in personnels' experiences of the new product, needed to be investigated in an open-ended fashion, and group discussions seemed to provide an ideal way of obtaining in-depth data in a cost and time effective manner. Indeed, it is recommended in the literature as an effective tool for generating a wide range of attitude and behaviour pattern examples (Dickens 1987, Patton 1982). Interaction between group members allows individuals to compare and contrast their views with those of others, stimulating them to articulate thoughts and feelings which might not otherwise emerge (Dickens 1987). Furthermore, the comparative nature of discussions maximised understanding of differences in motivation between those interviewees with greater and lesser involvement in the product field, as they shared experiences in a supportive and open manner.

With the company's co-operation a number of group discussions were conducted, between September 1987 and February 1988, with sales personnel in branches across the UK. Branch managers were contacted by the company's marketing research manager who introduced the researcher and the aims of the study. Subsequent telephone contact was made with the manager of each selected branch, in order to stimulate interest in the research and gain co-operation. To alleviate any initial apprehension,

it was made clear that the research was being conducted on an independent basis, and that results from the group discussions would remain anonymous. After co-operation had been obtained and a convenient time set for the discussion to take place, a follow-up letter was sent on college headed notepaper, setting out the required characteristics of group members and the purpose of the discussion groups. Participants were selected by branch managers on the basis of length of service with the company and the number of sales of the new product that they had achieved. This allowed for a diversity of opinion, and different experiences to be shared within the group. However, reliance on branch managers for recruiting respondents did represent some problems, as it was not possible for the researcher to ensure that these conditions were met. In two branches visited managers selected those personnel that happened to be in the branch at the time of the visit. Although appointments had been set over a month before their actual date, no preparation had been undertaken by managers. However, without gaining a complete list of all sales personnel and contacting each one individually, which the organisation would not entertain, there was no other method open for selection. Needless to say this does represent some bias in the results, although this was to be expected. Nevertheless, what the discussions highlighted were the general attitudes of a cross section of direct sales staff towards a specific new product, revealing some of the underlying behavioural and organisational factors that influenced the success of a particular new product.

The discussions were held in the meeting or training rooms of the selected branches, and lasted for approximately 90 minutes. Each group comprised of between 6-10 members, variability in numbers occurring due to managerial selection. Control of each group was an important factor in ensuring that the required ground was covered in adequate depth, and that all respondents were given a reasonable chance to participate. Therefore, from the outset, the researcher ascertained who were the more dominant and submissive respondents, the different levels of selling experience, length of service with the company, and the different rates of success with the product, and whether there appeared to be any polarised attitudes that were likely to produce conflict within the group. In conducting the discussions, the researcher had to appear neutral, whilst at the same time, conveying to the respondents that their attitudes and experiences were important. Focus of debate centred around the following areas, (which

had been highlighted in the literature search as influencing the success / failure of new products, from prior analysis of company sales records, interviews with head office personnel, and results from the postal questionnaire):

- sales personnel characteristics
- experience and length of service
- selling strategies
- the need for new products in general
- Living Assurance and its attributes
- customer characteristics/perception
- benefits/disadvantages associated with the new product
- organisational control
- resistance to change
- communication

Probes were used to deepen the response to questions, and explore the themes that were introduced. Basic who where, what, and when questions allowed for a more complete and detailed picture to be obtained about attitudes towards the new product, the organisation, control mechanisms etc. This style of questioning was also used to clarify certain issues that the interviewer was unsure about. Non-directive questions were also employed at various intervals in the discussion to change direction or introduce new subjects. For example, it became clear during discussion that respondents considered Living Assurance to be 'different'. Clearly it was important to understand which dimensions contributed to this perception, and follow up any broad subjective descriptions. To what extent did price, policy content, advertising, and the uses with which the product was associated with make it different, and from what? Furthermore, whether or not respondents sold the product in question, and

how they felt about this, appeared very quickly to encapsulate more general attitudes towards the needs of the client. Hence this aspect was probed in more detail than had been anticipated at the outset. Controlling the discussions was not therefore just a matter of leading a group in order to cover the required ground, but also deciding in which direction the group was heading, and being prepared to pursue a line of thought which had not been anticipated.

Whilst conducting group discussions in the branches it became apparent that further information could be elicited from branch managers, which provided more detail about the new product than that gleaned from the interviews held at headquarters and documentary analysis. This had not been planned for in the design of the case study, however branch managers were very keen to discuss their attitudes towards Living Assurance, the company's more general policy to NPD and launch activities, and the relationship between branches and headquarters. Therefore at each branch visited, approximately 30 minutes was spent discussing these issues with the manager before or after the group discussions. At no time was the branch manager included as a member of the group, as it was recognised that this would have impeded the respondents' ability to speak freely about themselves, the manager, and the company, thus restricting the richness of data.

4.5 CONCLUSION

This chapter has introduced the aims and methodology used in this study. It has provided the rationale for the focus of the research, and described the methods used to collect data during the different stages of the programme. The PFS sector has been presented as an ideal vehicle for research into the development and distribution of new products and associated activities, as it is probable that increasing emphasis will be placed upon NPD and direct methods of distribution as competition within the sector continues to grow.

The first stage of the research concentrates upon the role of marketing research and associated activities in new product development, through the means of an industry wide questionnaire. Analysis of results will provide for a clearer picture of what developments are taking place, whether they are underpinned by marketing research, and indicate areas where improvements can be made. The second and third stages concentrate upon exploring the NPD activities of a particular organisation. The major objective being to examine the influences of organisational and behavioural factors upon the market performance of new products. Moreover, the case study allows for further investigation of the control and management of a direct sales force during the development and launch of a particular new product. The research findings have particular relevance for all PFS organisations involved in developing new products which are distributed through the medium of a direct salesforce.

More generally, by focussing attention upon the realities of NPD activity within the setting of a PFS institution, the research provides insight into the gap between theory and practice. In addition, the results can be of practical use in helping PFS organisations understand the factors that impinge upon the development of new products and increase their chances of success.

1 - However this is mainly in the corporate banking sector, the penetration of foreign banks into domestic retail banking is somewhat slower. Nevertheless there are some banks who see the retail market as a prime target for growth in the UK.

2 - Under the new regulations a life insurance company is responsible for the selling techniques of tied agents (even if they are self-employed). Ensuring compliance to the new rules will be expensive. For example, Allied Dunbar spent £4 million on training in 1987 (Mitchell 1987 (a)).

3 - For a more detailed discussion of the effects of the Financial Service Act on the life insurance industry see Mitchell A (1987 (a)), A Real Life Dilemma, Marketing, 12 March, pp 24-26.

4 - For example the Prudential, Guardian Royal Exchange, Allied Dunbar, National Westminster and Halifax have all concentrated upon highlighting aspects of their support offering in the form of advice, welcoming attitude, impartiality.

5 - Direct marketing is a means by which the consumer can contact life assurance company by post. Direct mail-shots of particular PFS products are sent to segments of a defined population, and can also appear in a number of national newspapers. The basic aim of this method of distribution, is to motivate the consumer to return an 'invitation' for more information about an advertised life product, or, alternatively, 'purchase by post'. Such methods are cheap and simple to put into practice, and allow for very accurate targeting of consumers through such demographic systems as ACORN and Pinpoint. However response rates can be low, a survey conducted by Frith (1987) revealed that over half of the respondents recorded fair to poor responses to direct selling campaigns, (no indication of the actual size of response was given). Although traditionally used by insurance companies as an ancillary or sometimes primary distribution technique, the general increase in competition in the PFS sector has seen banks and building societies, and more significantly, competitors from outside the sector such as retailers, using direct mail to market their products.

6 - The broker channel is made up of tied and independent agencies with a number of outlets on the High Street, which provides some opportunity for the consumer to establish prior contact. Independent brokers advise their consumers about the suitability of products available from their panel of Life offices. These organisations can range from substantial companies such as Hogg Robinson, to small owner-managed businesses (Feeney and Knott 1988). Tied brokers are ones who have decided under the polarisation rules contained in the Financial Services Act 1986, to deal only with the products of a single company.

7 - The Financial Services Act 1987 deals with investor protection, and is the first attempt to regulate comprehensively the financial services industry. Any firm wishing to sell investments must be authorised under the Act; since April 29 1988 it has been a criminal offence to sell investment products unless official authorisation has been obtained. Authorised businesses are required to conform to wide-ranging conduct of business and capital adequacy rules. The new system gives the regulatory organisations extensive powers of investigation, intervention and prosecution in each of the sectors. For example, in the Life Insurance sector, the FSA requires intermediaries to polarize, ie to deal with products of a single company or operate independently.

8 - Under the terms of the FSA, the decision to be independent or tied must be accompanied by registration with one of the following self-regulatory organisations (SRO), FIMBRA or LAUTRO, and also must be advised to the customer)

9 - Financial Intermediaries Managers and Brokers Regulatory Association (FIMBRA) - is the regulatory body for those who seek to operate as independent financial advisers, ie those who advise on and offer the products of several life companies.

10 - Life Assurance and Unit Trust Regulatory Association (LAUTRO) - is the regulatory body of those who sell the products of a single company. They may be employees of the firm, or branded representatives (ie self-employed but trading under a particular company's name), or tied agents (businesses trading under their own name but dealing only with products of one Life office).

11 - For a more in-depth discussion of individual frames of reference/paradigms see the Introductory Chapter in Case Studies in Organisational Behaviour, Clegg, Kemp and Legge (1985) .

CHAPTER 5

THE POSTAL SURVEY

5.1 INTRODUCTION

This chapter presents the results of the postal questionnaire which investigates several areas of interest relating to the development of new products across the PFS sector. It addresses the importance of new products and marketing research in general, by revealing the types of undertakings of such activities in respondent organisations. In so doing, it permits a comparison to be made between the approaches and recommendations for NPD and marketing research found in the literature, and current practices in the field.

The starting point of the survey, questions the importance of new products to respondent companies. As the literature search has already indicated, NPD has been shown to be a factor in corporate survival and growth, as well as providing for a means of competitive differentiation, in much of the research undertaken in this area. In addition, type of development has been viewed by many writers as a catalyst for success, with greater emphasis placed on innovative new products rather than rejuvenations of existing lines. The survey, therefore, investigates the amount and type of NPD projects that have been undertaken during the last 3 years, in order to establish how central the activity is in respondent organisations.

The second area of interest, is devoted to investigating a key criteria associated with successful NPD, that of marketing research. To meet the corporate objectives of survival, growth or differentiation, a new product must also be seen to be successful. Marketing research is viewed by many writers as a significant factor in this quest for success. It also provides the foundation for the general model of NPD, as each stage of the recommended process indicates that some form of research needs to be carried out before the next stage of the model can be undertaken.

For the purposes of this study, marketing research is therefore viewed as an indicator of the importance placed on new products by respondents, as results from other research studies have shown (Cooper and Klienschmidt 1987, Rothwell 1976, Rubenstein 1976) that the use of such techniques increases the probability of product success.

The third area that the survey investigates, is the type of approach taken by respondent organisations towards NPD activities. The most widely known and copied model of NPD in the literature (Booz, Allen and Hamilton 1982), sets down all of the stages of development that a new product should undergo before reaching the market place. Such models could be viewed as an aid to the decision making, planning and management tasks associated with NPD. On the other hand, there appears to be an underlying assumption that their use guarantees success. Indeed as the literature has shown, some writers (Golding 1983, Cooper 1982) are concerned that the existing models of development are too structured and narrow in their approach. They advocate the need for a more contingent account to be taken of the variety of factors that can impinge upon the development of new products, affecting the outcome of projects undertaken in this area. However, such theorists have concentrated their research upon organisations within the manufacturing, and it is not clear, therefore whether the results of their findings can be applied to other industries, such as personal financial services.

In order to examine the applicability of each approach, the survey concentrates upon discovering what stages of development new PFS products go through before they reach the marketplace. It also looks at some of the contingencies that may affect the ability to undertake NPD and marketing research. The findings of the survey will provide results that can be compared with some of the research undertaken in other industries, as well as contributing to the debate about the relevance of the different approaches to new product development.

5.2 METHODOLOGY

A two-stage approach to data collection was adopted, the first stage was conducted during the latter part of 1986 and involved 20 personal interviews with marketing and marketing research executives from financial institutions, (banks, building societies and insurance companies), and from consultancies with financial organisations as clients, (market research, new product and advertising agencies). The aim of the interviews was to gain an initial impression of the state of the art of new product development and identify relevant uses of marketing research at different stages of the process. A wide range of opinion was expressed during the interviews, ranging from the type of new product activity that was currently taking place in respondent's companies to the political nature of some development projects. Several of the consultancy firms interviewed were retained on an on-going basis by some of the large PFS organisations and were able to provide some useful insights into their NPD and marketing research activities. This information was also very helpful in formulating the postal questionnaire. This was pre-tested on 5 respondents from the pre-selected sectors and after suggested changes had been made to the layout, design, and meaning of some of the questions, the questionnaire and a covering letter, (see Appendices 3 and 4 for examples), were sent to the marketing research manager (1, 2), in each of the selected companies. A summary of results was offered to prospective respondents, to provide an incentive to take part in the survey. In addition, confidentiality of all information received was guaranteed.

The questionnaire was therefore sent to all the banks (106), building societies (164), and insurance companies (122), within the UK, which were listed in the relevant yearbooks. This gave an assumed total population size of 392. However 19 questionnaires (10 banks, 2 building societies, and 7 life insurance companies), were returned without contact being established. Whether this was due to change of address after inclusion in the appropriate yearbook, closure of business, or for other reasons remains unknown.

A more extensive search may have produced more information about the reason for non-contact, however this was prevented due to time constraints. A further 17 questionnaires were also returned by sampled organisations who were unable to take part in the survey for the following reasons:

- (a) Of the 106 companies contacted in the banking sector, 8 stated that they were not involved in supplying personal financial services.
- (b) At the time of the survey, 5 of the building societies contacted were involved in transferring their engagements to other societies and therefore were unable to complete the questionnaire.
- (c) An additional 4 organisations (2 insurance companies and 2 building societies), stated that they were receiving an increasing number of requests for information, and due to reasons of confidentiality and amount of time involved in completing questionnaires, a policy of non-participation had been adopted.

In total, 36 questionnaires were returned for the reasons stated. This amount was deducted from the original total population size of 392, leaving a final sample population of 356 organisations spread across the following sectors:

88 Banks

155 Building Societies

113 Insurance Companies

After one reminder 106 usable returns were received, giving a final overall response rate of 29.77 per cent. Respondents were from the market sectors listed in Table 5.1:

TABLE 5.1

OVERALL RESPONSE RATE ANALYSED BY MARKET SUB-SECTOR

Sub-Sector	Response Rate	
	(No)	(%)
Banks	19	17.92
Insurance Companies	41	38.68
Building Societies	46	43.40
Overall response rate	106	100

A response rate of 29.77 per cent is reasonable for this type of survey, however care should be taken in relating these results to marketing research and NPD activity in the overall PFS sector. This is due to the possible existence of non response bias, which may mean that results exaggerate or understate the real position facing organisations involved in NPD activity. In addition, the smaller number of respondents received from the banking sub-sector, may have biased results in favour of insurance companies and building societies who did respond to the survey. Table 5.2 analyses response rates by total number of organisations contacted in each sub-sector:

TABLE 5.2

RESPONSE RATES BY SUB SECTOR

Sub-Sector	Number Contacted	Responses Received	
		Nos	(%)
Banks	88	19	21.59
Insurance Companies	113	41	36.28
Building Societies	155	46	29.67

The limited response rate of 21.59 per cent from banks, is believed to derive in part from the lack of provision of products geared to consumers by a number of banks contacted. However, further analysis indicated that approximately 21 per cent of banks that did participate, employed over 10000 staff. Such banks are well represented on the high st, and are most active in providing PFS products to the consumer. Greater response was received from both building societies and insurance companies, possibly due to their greater involvement in NPD and MR activities.

Overall non-response to the survey may have been caused by a number of reasons, such as:

- lack of provision of PFS products, there was no guarantee that all companies listed in the yearbooks as providing PFS products did actually do so.
- lack of interest in the survey, organisations may not have been involved in NPD activity and felt that there was no reason therefore to respond.
- lack of marketing or market research department, the questionnaire had been addressed to the marketing research manager and if a company had neither function then there was a possibility that the survey was discarded with.
- timing of the study, several major new peices of legislation had taken place and further were expected that represented significant changes for all organisations in the PFS sector. This may have resulted in limiting the interest in the research.

Nevertheless, the following results do provide a representative view of the marketing research and NPD activities of the 3 major subsectors involved in providing PFS products to the consumer.

5.3 IMPORTANCE OF MARKETING RESEARCH AND NEW PRODUCT DEVELOPMENT

As the literature review has previously shown, there is an inherent assumption that some form of marketing research should be undertaken at each stage of the prescribed NPD model. This is associated with the basic premise that all products must be based upon consumer needs, defined by marketing research that is carried out before any development activity takes place. Moreover, it is recommended in the literature that further research is conducted at different stages of the NPD process in order to ensure that these pre-defined consumer needs are being met. Nevertheless, the ability to carry out such research, and therefore take a more planned approach to NPD, was indicated in the literature search (Cooper 1988, Golding 1983), as being highly dependent upon the resources available to the individual company. It was decided therefore to investigate in more depth, the infrastructure that enabled marketing research to be carried out within PFS companies. One clear indicator was determined to be an organisation's marketing research budget. However, it was pointed out in the preliminary interviews that information about an organisation's total funds for research and development activity would be difficult to obtain.

It was decided therefore, to use size of company, in terms of the total number of employees, as key determinant of an organisation's ability to carry out and invest in marketing research and, by implication, planned NPD.

Information relating to size is given in Table 5.3, which classifies organisations by sub-sector and number of employees:

TABLE 5.3

NUMBERS OF EMPLOYEES IN EACH SUB-SECTOR

Nos of Employees	Banks	Sub-Sector B.Socs	Ins.Cos	Total No of Respondents	
	(%)	(%)	(%)	(%)	(No)
Under 100	36.85	36.97	14.63	29.2	31
100 - 499	21.05	32.60	19.52	24.5	26
500 - 999	5.26	8.69	14.63	10.4	11
1000-9999	15.79	19.56	48.79	30.1	32
Over10000	21.05	2.18	2.43	5.7	6

Population = 106

The split between each size category is an arbitrary figure, but one that is believed to be comprehensive enough to allow for comparisons between organisations to be made. Indeed, those firms employing less than 500 employees were seen as having a limited amount of resources to spend on marketing research and NPD activity, in comparison to those companies with over 1000 staff.

A further indication of an organisation's ability to carry out marketing research was felt to be represented by the presence of a marketing function. Traditionally, marketing has encompassed a wide range of duties from product management to promotion and advertising. However the foundation for all such activities is research, indeed, Kotler (1984) states that:

"marketing information is a critical element in effective marketing as a result of the trend towards national and international marketing, the transition from buyer needs to buyer wants, and the transition from price to nonprice competition."

This would presuppose, therefore, that all organisations involved in marketing activities have a commitment to marketing research. However, the importance of such tasks may again vary according to size of organisation, and resources available:

TABLE 5.4

MARKETING FUNCTION BY COMPANY SIZE

No of Employees	Marketing Function (%)	Marketing Function (Nos)	All Cos (Nos)
Under 100	64.51	20	31
100 - 499	92.30	24	26
500 - 999	100.0	11	11
1000-9999	93.75	30	32
Over 10000	100.0	6	6

Population = 106

The results in Table 5.4 indicates that there is a high incidence of marketing functions in all of the companies contacted, with the exception of those organisations employing under 100 employees (35.49%), who were less likely to have the resources available for such activities. Nonetheless, it appeared that even in those organisations who stated that they did not have a stand-alone function, other operational departments had a residual responsibility for marketing. For example, specialist areas such as unit trusts or pensions were assigned the responsibility for marketing products that came under those classifications. In addition, the marketing function was undertaken by external agencies in a small number of cases, or, alternatively, seen as one of the duties of branch managers or field staff, rather than one managed centrally at head office.

Even when such factors were ignored, 85.85 per cent of respondents had a facility for conducting research through their marketing function. This indicated a greater probability that marketing research

per se would be carried out in respondent companies. Indeed, it was felt that staff employed in this function would be more likely to appreciate the benefits associated with such techniques and apply them where possible. However, before it can be argued that the existence of a marketing function is an indicator of an organisation's ability to undertake market research, size of marketing department and the types of activities undertaken need to be considered.

TABLE 5.5

NUMBER OF STAFF IN MARKETING FUNCTION BY SIZE OF COMPANY

Total No of Employees	No of Staff in Marketing Function				
	1-15	16-25	26-50	51-100	Total
Under 100	20	-	-	-	20
100 - 499	21	3	-	-	24
500 - 999	9	2	-	-	11
1000-9999	10	6	14	-	30
Over 10000	-	-	-	6	6
Total	60	11	14	6	91

Sample = 91

Table 5.5 indicates that number of staff employed in the marketing function is related to the overall size of organisation. An increase in the total number of employees is mirrored by a similar increase total number employed with specific marketing duties. Larger organisations with greater resources, appear to have invested heavily in departments of up to 100 staff. At the other end of the scale, small organisations are employing between 1-15 personnel in this area. Greater consideration, however, could have been given to the composition of this latter classification in the design of the questionnaire. For instance, employing, say, between 1-3 members of staff to undertake all the marketing duties in a company of up to 1000 personnel, would on the surface convey a lack of investment and attention given to this area. However, the same cannot be said for organisations employing up to 100 staff of which up

to 15 per cent might be involved solely in marketing. This would represent a staff cost of approximately 150,00 to 200,000 pounds a year, which would indicate a very strong commitment to this function. The results presented in Table 5.5 could therefore have been improved if a further categories of 1-5 and 6-10 employees had been added.

In order to establish whether NPD and marketing research activities were part of the duties undertaken by the marketing function, respondents were asked to indicate which of the areas highlighted in Table 5.6 they were responsible for.

TABLE 5.6

DUTIES CARRIED OUT BY MARKETING DEPARTMENT

Duty	Companies with a Marketing Function
	(%)
Advertising	84.09
Brand Management	45.25
New Product Development	78.40
Promotion	86.36
Direct Mail	73.86
Pricing	35.22
Marketing Research	75.00

Sample=91

It was apparent that marketing research and new product development activities were undertaken in large number of respondent organisations, with over 75 per cent of marketing departments involved in these activities. Promotion, direct mail and advertising were further well represented tasks that respondent companies undertook. It could be argued that this is a further indication of the use of marketing research as each of these areas requires an underpinning of research if it is to be successful and meet target audiences.

Some organisations, it was realised, could have had a discrete function in charge of marketing research activity, pointing towards an even greater commitment to this area. Respondents were therefore asked if they had a separate marketing research department, Tables 5.7 and 5.8 illustrates the answers by type and size of organisation.

TABLE 5.7

MARKETING RESEARCH FUNCTION BY SUB-SECTOR

Sub-Sector	Total No of Cos in Each Sub-Sector	Cos with M/R Function	
		(No)	(%)
Banks	19	5	26.31
Insurance Companies	41	11	26.82
Building Societies	46	15	32.60
Total	106	31	29.24

Sample = 106

TABLE 5.8

MARKETING RESEARCH FUNCTION BY COMPANY SIZE

No of Employees	Total No of Cos in Each Sub-Sector	Cos with M/R Function	
		(No)	(%)
Under 100	31	02	6.45
100 - 499	26	06	23.07
500 - 999	11	03	27.27
1000-9999	32	16	50.00
Over 10000	06	04	66.66
Total	106	31	29.24

Sample = 106

Just under one third of all respondent organisations had a separate function that dealt solely with marketing research (29.24%). There appeared to be no significant difference between types of PFS company, however as would be expected, size of organisation did influence whether or not an in-house marketing research department was in existence. Indeed, 50 per cent of those companies employing between 1000-9999 staff had such a department, in addition to over 66 per cent of firms with over 10000 personnel.

Further supplementary information provided a clearer picture of the numbers of staff employed in marketing research function, and the length of time it had been established. The majority of the 31 organisations with marketing research departments,(87%), employed between 1 and 3 staff. Although one bank employing over 1000 staff, stated that they had 20 individuals working in this area. In addition, one building society and one insurance company, employing a similar number of personnel, stated that they had 6 members of staff in their respective marketing research departments. Over half of the 31 companies (61.29%), had established departments during the last five years (1982 -87), with

nine being set up in the last 2 years (1986-87). This latter attention to setting up a marketing research function, interestingly coincides with the increasing competition across the PFS sector.

These results reviewing the existence of marketing and marketing research functions within and across different types and sizes of PFS organisations taking part in the survey, reveal that the majority of respondents have the facilities to undertake marketing research. Furthermore, investment in resourcing this function is indicative of the fact that some importance is attached to it. That the infrastructure is in place to carry out marketing research is clear, however this does not immediately establish whether it is viewed by respondent companies as an important activity underpinning NPD projects. In order, therefore, to understand the relationship between the two tasks in greater detail, the survey looks specifically at the amount of NPD and associated marketing research undertaken by respondent companies. Only then will be possible to determine the importance of planned NPD in the PFS sector.

5.4 NEW PRODUCT DEVELOPMENT

5.4 (i) - Amount and Type

In general terms, a great deal of evidence of new product development (1,2) was reported, 97 (91.5%) organisations, stating that they had been involved in some form of NPD activity during the period between February 1987 and February 1988. As Table 5.9 shows, there was little variation in this high incidence rate across type of organisation. It is marginally lower in the banking sub-sector, but this may be related to the limited presence in consumer markets of the smaller, more specialist banks that were included in the sample.

TABLE 5.9

INVOLVEMENT IN NEW PRODUCT DEVELOPMENT DURING LAST YEAR

Sub-Sector	Involvement in NPD		Total No Companies
	(%)	(No)	(No)
Banks	84.2	16	19
B. Societies	91.3	42	46
Ins. Companies	95.12	39	41

Population = 106

The results show that 8.5 per cent of the total sample of respondents had not had any involvement in NPD during the specified time period.

Closer analysis of size and type of these organisations, indicated that this percentage figure was made up of:

3 banks

4 building societies

2 insurance companies

all of whom employed under 500 staff.

A major reason for non-involvement in the development of new products was associated with the limitation upon existing resources. It appeared that in smaller organisations concentration upon one major task precluded involvement in other areas, for example the following justifications were given for non-involvement:

- Preoccupation with consolidating and improving trading accounts.
- Internal policy decisions to upgrade computerised database.
- Re-definition of corporate strategy in light of FSA legislation.

Other reasons given centred around the wish to retain traditional products aimed at a stable consumer base, as such product changes only took place if required by legislation, or in accordance with interest rate changes.

It is of course possible that companies currently undertaking new product development were more likely to respond to a postal survey on the subject than were those not involved in such activities.

Therefore, results may show a more favourable picture of NPD than necessarily exists in reality.

However, 97 out of the total 106 respondents were involved in some sort of NPD activity, indeed, the results in Table 5.10 indicate that some companies used more than one development route. Half of the respondents who undertaking NPD, introduced new products into new markets, while over 84 per cent placed at least one new product in an existing market.

TABLE 5.10

TYPES OF PRODUCT DEVELOPMENT UNDERTAKEN IN LAST YEAR

Product/Market	Respondent Undertaking
	(%)
New Product/New Market	47.42
New Product/Existing Market	84.53
Rejuvenated Product/New Market	13.4
Rejuvenated Product/Existing Market	50.5

Sample = 97

Table 5.10 demonstrates that respondent companies were more familiar with developing both new and old products for existing markets. In terms of the attention paid to new markets, very little was given to developing old products, whereas the development of new products into new markets appeared to be dependent upon size of respondent organisation:

TABLE 5.1I

DEVELOPMENT OF NEW PRODUCTS FOR NEW MARKETS

No of Employees	NPD for New Markets		Total No of Companies
	(%)	(No)	(No)
Under 100	16.0	5	31
100 - 499	41.8	11	26
500 - 999	45.3	5	11
1000-9999	64.2	21	32
Over 10000	63.6	4	6

Sample = 106

As Table 5.11 shows, involvement in the development of new products for new markets, increased at a similar rate to company size. This result is not surprising, larger organisations were expected to have more resources available for investment in NPD, being able to afford to be involved in the most risky type of development activity. Moreover as the results have already indicated, larger organisations had the marketing research infrastructure in place, allowing them to scan the marketplace for new product/market opportunities in a systematic fashion. What had not been anticipated, was the high percentage of small to medium sized firms (41.8%), developing new products for new markets. This could have been the result of the new competitive framework which was encouraging greater diversification into new areas, than had previously been the case.

5.4 (ii) - Idea Generation

A formal process for searching for ideas outside as well as inside organisations is recommended in the NPD literature (Bowers 1989). Active searching for new ideas allows a firm to stay in touch with changes in its environment, and anticipate new movements and trends, and gain time on competitors.

Several in-house and external sources were used by respondents in generating new ideas. Table 5.12 highlights top management and the marketing department as the most influential sources of new ideas, (89.69% and 78.35%), followed by sales staff, (58.76%). Further analysis showed that top management input was highly significant for all size categories, excluding those companies employing over 10,000 staff whose executives may have had very little involvement with product development activity. Top management in smaller firms however were far more likely to be involved in all aspects of development, as such companies lacked a specific marketing function. Moreover, it was felt that they were less inclined to have hierarchical structures.

TABLE 5.12

SOURCES OF IDEAS FOR NEW PRODUCTS

Idea Source	Respondents Involved in NPD
IN-HOUSE SOURCES	(%)
Top Management	89.69
Marketing Department	78.35
Marketing Research Department	26.80
Sales Staff	58.76
Venture Groups	4.12
EXTERNAL SOURCES	
Advertising Agency	48.45
Marketing Research Agency	31.95
New Product Agency	8.24
Changes in Government Policy	30.92
Customers	43.29
Competitors	65.97
Overseas Markets	6.18

Sample = 97

Competitors were the most significant external source of new ideas (65.97%). This is to be expected given the ease of copying products, if they meet with existing systems and ranges within a company. However, advertising agencies were also an important source, especially in larger organisations (1000-999 and over 10000), 35 companies across these two categories (92%) accounting for 74.3 percent of total usage of this source.

Although larger companies are more able to afford agency involvement at this stage, employing such expertise can be beneficial in generating innovative ideas. This could therefore indicate that larger concerns are placing greater reliance upon new products that are very different from competitors, thus allowing for a means of clear differentiation in the marketplace. Customers were also an important fund of new ideas for banks and building societies (62.5% and 47.61%), although only 30.76 per cent of insurance companies cited this source for idea generation. This appeared to be due to the fact that intermediaries, (ie sales force, brokers), were viewed as the customer by the majority of insurance companies in the survey. Further analysis of sources of ideas for new products by type of organisation, demonstrated that 85 per cent of this sector view sales staff as an important source of ideas.

Surprisingly, further examination of this source of ideas indicated that 65 per cent of respondents could be classified as small (ie employing less than 500 staff). On face value this result was unexpected as size was thought to delimit the ability to involve the use of customer groups for idea generation. Further consideration however, revealed that a smaller company is more likely to be closer to their client base than their larger counterparts, and therefore better able to make use of this valuable source of information in an informal way.

Marketing research departments were not significant in-house sources, a breakdown of results by size shows limited utilisation in smaller organisations, although greater use is associated with increase in number of employees:

Under 100	8.3%
100 - 499	15.4%
500 - 999	27.3%
10000-9999	53.1%
Over 10000	33.3%

This restricted use clearly relates to a lack of marketing research function, as previously indicated, only 31 (29.24%) of all respondent companies had a separate function for research purposes. Somewhat surprisingly, very large organisations did not place great emphasis on this department for idea generation. However findings from the early interviews highlighted that advertising, new product and marketing research agencies were retained for this purpose by the larger PFS companies, in some cases, on a continual basis. Indeed, in cases where outside expertise in idea generation was bought in, the main function of a marketing research departments may have been to provide a more general support service across all departments in an organisation.

5.4 (iii) - Number of New Ideas

The overall number of ideas generated by the various internal and external sources varied greatly from anything between 1-100. Over half (52.6%) of the companies answering this question, stated that as limited records were kept of NPD activity per se, there was difficulty in keeping track on how many ideas were generated. From the analysis of the sources used it would appear that there is a significant amount of idea generation takes place, but in an unstructured manner if records are not kept, or more importantly numbers of new ideas cannot be recalled.

5.4 (iv) - Initial Screening

The screening stage is the first step in the selection process and is in effect a rough filter which enables the rejection of ideas that do not meet with an organisation's goals, product policies, and capabilities (both technical and administrative). Its basic purpose is to provide the third stage of the NPD process with only those ideas that are worthy of detailed evaluation.

Respondents involved in NPD activity (97), were asked what criteria, if any, was used in deciding whether or not to further develop a product idea. Table 5.13 indicates that a large percentage of companies used at least one method to aid decision-making in this area. The most important of these measures, was profit forecasts, 78.35 per cent of respondents stating that they used this development criterion. Cost considerations, (67.01%), minimum sales revenue forecasts, (64.74%), and market share forecast, (62.88%), were also popular methods of appraising the potential of a specific new product.

TABLE 5.13

NEW PRODUCT DEVELOPMENT DECISION CRITERIA

Criterion	Respondents Involved in NPD
Activity	(%)
Minimum Sales Revenue Forecasts	64.97
Fit with Existing Product Range	53.60
Fit with Corporate Image	42.26
Cost Considerations	67.01
Profit Potential	78.35
Entry into New Markets	30.92
Increasing Market Share	62.88

Sample = 97

Although some of the above criteria are heavily used in aiding further development decisions, the greatest emphasis was placed upon cost and revenue returns as opposed to market considerations. Furthermore, little concern was given to reviewing opportunities to enter new markets, highlighting the lack of attention given to this form of NPD by many of the surveyed companies.

As the literature search has shown, the initial screening stage can also include some prior evaluation of consumer reaction to new ideas before they are progressed any further. According to survey responses, this stage was the subject of limited marketing research, with only 23.69 per cent of respondent companies (23) obtaining consumer reaction to a new product idea. A major reason given for not undertaking marketing research was that it was too expensive (43.2%) and time consuming (37.8%), or seen as unnecessary by some companies because of the reactive nature of ideas (18.9%). These responses came mainly from smaller organisations (employing less than 500 staff), who had limited resources and carried out desk research using their own sales data, syndicated surveys. They made informed guesses about market appeal as they felt that they had enough knowledge about their customer base to know what appealed to them. This point was initially highlighted in the interviews held with marketing research professionals. They indicated that a lot of development decisions had been made in the past on the basis of fit with existing product range and systems, in addition to a reliance on 'gut' reaction. It was also inferred that there was an unwritten assumption in the industry that new product ideas were researched during their initial development. If another company decided to copy or remodify a competitor's original idea for their own product range, they didn't bother to undertake research because they assumed that this had already taken place. It was felt that little foresight was given to differences in existing customer segments, changing tastes and needs, ie that even if research had been carried out initially, the passage of time and other disparities would limit the application of earlier results.

At this stage of the NPD process, respondents were asked to try to quantify the proportion of ideas that were rejected after being subjected to the different feasibility criteria. However, the majority of organisations were unable to answer this question, because as already stated, a record of NPD activities was not kept.

5.4 (v) - Product Definition

The next stage of the prescribed NPD process involves converting a product idea into a more defined version with specific attributes which will be launched into the marketplace. The literature recommends that marketing research is carried out at this stage in order to ensure that the developed product reflects the needs of consumers, and also to gain market reaction from prospective purchasers. It is after such research takes place that changes can be made to the product. For example, if research indicates that certain aspects of the product are disliked or not understood by consumers, then it is possible for the new product to be altered to mirror market demand.

Respondents were asked whether they carried out any marketing research in order to gain consumer reaction to a new product before it was launched. Results showed that 43.29 per cent of organisations involved in NPD, obtained consumer reaction to developments before launch. Further analysis revealed of this result by type of company, revealed that a greater percentage of banks are involved in this activity, as opposed to building societies and insurance companies:

Banks	68.75%
Insurance Companies	35.89%
Building Societies	40.47%
Sample = 42	

In addition, it was found that research at this stage of development was related to size of organisation. As numbers of employees within respondent organisations increased so did the incidence of obtaining consumer reaction:

TABLE 5.14

CONSUMER REACTIONS OF NEW PRODUCTS BY SIZE OF ORGANISATION

No of Employees	Obtained Consumer Reaction to New Product
Under 100	(%) 25.00
100 - 499	34.61
500 - 999	36.40
1000-9999	56.67
Over 10000	100.0

Sample = 42

Respondents involved at this stage were asked who undertook research. In-house sources, such as marketing and marketing research departments, were used by the majority of these of organisations (85.71%), followed by marketing research agencies (59.71%). The most popular methods of obtaining consumer reaction to a new product were discussion groups (69%), and in-depth interviews (57.14%). Number of consumers involved varied with the method used but, on average between 5- 20 individuals were used for discussion groups, with anything up to 500 respondents taking part if a large survey was undertaken.

Mock-up brochures (69%) and story board techniques (42.85%) were the most popular ways of presenting new products to the consumer. There was very limited use of any other presentation methods, although 3 organisations did state that they used written descriptions of a new product's features and benefits together with some promotional claims, as a presentation method.

Reasons given by the 56.71 per cent (55) of organisations not involved obtaining consumer reaction at this stage of the development process, related to the overall relevance of conducting research. Cost and timing involved, copying of products, and the ability of the consumer to take part were all put forward

as valid reasons. The following section provides a cross-section of comments associated with each of these areas:

(a) Cost/Timing of Research

- the cost of research is greater than the cost of product failure.
- products tend to be natural extensions of existing products, and we have inadequate resources to carry out research.
- the expense is too high for a small society, and the market moves too quickly.
- a shortage of time and the expense, in addition product success depends on the interest rate.
- in financial markets the impact of launch is important, thus a gradual dissemination of product information would be inappropriate.
- having done initial research and got the go-ahead, time and cost is too short to involve more research.
- we see the need to react extremely quickly to new products and new ideas. Testing consumer reaction would delay the launch of a new product in which time our competitors could well steal an advantage.

(b) Copying of Products

- generally speaking we are imitating a product which is already proving to be successful for a competitor.
- we are inevitably going to 'mould' products already available elsewhere. We can see if they are already successful, and we are good judges of our own 'mouldings'.
- we know enough from general research findings to make informed judgements.

(c) The Consumer

- difficulty in isolating the consumer, as products are sold through financial intermediaries we are selling the new product to them rather than the consumer.
- the financial market is so broad that fine targeting isn't necessary.
- not necessary in the insurance market, often products are too complex for consumers to understand the details.
- the marketing of products is done through intermediaries, we have little contact with the final consumer - we listen to intermediaries suggestions.

- in many cases consumers are not sufficiently aware of life assurance to enable them to assess potential products...the intermediaries are more able to do this.
- insurance products stimulate little consumer awareness or interest. Our products are bought on a needs basis through intermediaries who are generally oriented towards price and commission.

The above comments illustrate that the lack of research into consumer reactions to new products is related in part to the PFS environment. As there are no means by which to patent new products, the copying of other companies' products is a major NPD method. It appears that if a product is already seen to be successful, then a copy of it will gain a similar market impact. In addition, as products can be developed very quickly if existing administrative systems can be adapted, the timing of the development process becomes crucial. Personal financial products were also viewed as being complex and therefore difficult for consumers to grasp, which lead to the opinion that research into consumer reactions had either limited relevance for the launch decision, or could not be carried out.

5.4 (vi) - Decision to Launch

The decision to launch was taken at senior levels in many of the companies answering this question. Table 5.15 shows that specific departments or teams set up to oversee new product development were rare. Further analysis demonstrated that such functions only existed in larger categories of organisations, ie those employing over 1000 and 10000 staff.

TABLE 5.15

THE DECISION TO LAUNCH

Job/Title/Function	Organisations Undertaking NPD
	(%)
Marketing Director	26.80
Board	56.70
NPD Committee	14.44
New Business Dept	2.06

Sample = 97

5.4 (vii) - Criteria For Launch

The major criteria used for deciding whether or not to launch a new product concentrated on the following areas:

TABLE 5.16

CRITERIA FOR LAUNCH

Criterion	Organisations Undertaking NPD
	(%)
projected demand	26.80
profit potential	60.82
competitor activity	38.14
product maintenance costs	43.29
fit with existing portfolio	21.64
potential sales revenue	49.48

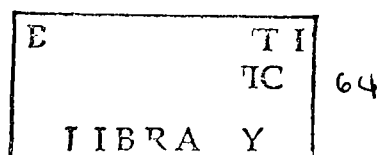
Sample = 97

Profitability was viewed as a major criteria to aid the launch decision by 60.82 per cent of organisations involved in NPD. However, Table 5.16 indicates that respondents used a combination of criteria in the decision making process. Indeed, one respondent stated that they viewed product potential by asking: "do our competitors sell the product in large enough volumes and can we sell it and make money from it?"

In order to answer such a question the company would have to analyse competitor activity, and also review the new product's potential sales revenue, associated costs and profit potential.

5.4 (viii) - Market Tests

Once the decision to launch a new product had been taken, a small percentage (23.71%) of respondents (23) claimed to use market tests. Little difference appeared in results when analysed by sub-sector, however the incidence of market tests increased dramatically in companies employing over 10000 staff.



Surprisingly, a limited number of smaller organisations were also involved in testing new products before launch. As a negligible amount of consumer reaction was gained by companies of this size at other stages, market testing may have represented the major part of the NPD process, with research efforts concentrated in this area only.

TABLE 5.17

MARKET TEST BY COMPANY SIZE

No of Employees	Companies Using Market Tests in Each Category
	(%)
Under 100	13.0
100 - 499	28.0
500 - 999	27.3
1000-9999	21.9
Over 10000	50.0

Sample = 97

The reasons given for not conducting market tests by the remaining 76.29 per cent of organisations centred around the following:

- (a) size of organisation - too small to warrant the expense.
- (b) the cost - market testing was seen as an expensive consumer research method not necessary in the PFS sector.
- (c) ease of copying for competitors.
- (d) results from market tests were unreliable.

The majority of reasons given were associated with either factors outside of the organisations control or ones of a more political nature. For example it was stated that:

'If you market test a PFS product, you are already committed to the systems and administrative support for that product for a specified number of years, it is too late to evaluate benefits before committing the costs'.

Market tests were also viewed as unnecessary, firstly, because the decision to launch was viewed as the most important factor, and the new product would be launched whatever the results of tests were.

Secondly, as the copying of products was rife, market tests were irrelevant:

"new products are either going to be similar to existing products or competitors' successful products."

Competitive pressure was an additional justification given for not undertaking market tests of new products. Lead times were seen as short, and it was felt that this type of testing made it far simpler for competitors to copy new ideas. One respondent stated that:

"Market tests awaken competitors to new products which they can quickly copy and launch, before the results from testing have been analysed."

A further explanation, specifically related to the insurance sector, was that new business was generally obtained via consultants/field staff, and if they were seen to support a proposal then it was thought to have a very good chance of succeeding.

5.4 (ix) - Withdrawal of Products

A decision to withdraw new products that had undergone market tests, had been taken by 23 organisations, (43.47%), involved at this stage of the development process. The number of products that had been tested and then withdrawn varied between 1 and 10, and several reasons were given for this. For example, changes in government legislation whilst the product was being tested, and changes in interest rates making the product uncompetitive. A further reason for withdrawal, appeared to have been caused by lack of knowledge and experience of managing a 'copied' product:

" The administration associated with the product was far more complicated than we had anticipated - we could deliver the product and test results indicated success, but we had not got the services to back it adequately."

It can be seen that the arguments for withdrawal were associated with internal organisational problems and external events outside of the company's control, rather than because market tests had highlighted negative reactions. However, it is debatable whether respondents who had been closely involved in a development project and, therefore, identifying with its outcome, would admit to the fact that the developed new product was unsuccessful due to lack of demand. Overall then, the results revealed that relatively few organisations (23.71%) undertook this stage of the NPD process. It appeared therefore that the majority of respondents launched new products into the marketplace with very little hard evidence of the probability of success in consumption terms, more attention being paid to past experience, knowledge of the PFS market, and cost/profit forecasts.

5.4 (x) - Product Launch

The literature associated with NPD, highlights the increased probability of new product failure in the marketplace, if market research is not carried out at each stage of the recommended NPD model,(Knox 1988, John and Snelson 1987). However, the survey results had shown limited use of marketing research, indicating little planned development activity, which would presuppose a high failure rate for new products, if a theoretical approach is taken.

In order to establish whether launched products had subsequently failed in the marketplace, respondents were asked to indicate the number of product withdrawals during the 3 year period prior to receipt of the survey (3). A large number of respondents, namely 58.76 per cent (58), stated that they had not withdrawn any of the products which they had launched during the time period. The remaining 41.23 per cent of organisations (39), had withdrawn a total of 95 new products after they had been launched in the specified 3 years. This total number of product withdrawals was made up of:

42.5% of respondents had withdrawn 1 new product

17.5% -----2 new products

15.0%-----3 new products

10.0%-----4 new products

15.0%-----5 new products

Sample = 39

This gave an overall average of 2.375 new products per organisation, that had been launched and subsequently withdrawn from the market. The reasons given for taking such actions were, once again, mainly related to influences beyond the organisation's control, such as:

changes in interest rates

changing markets

government legislation.

Respondents who had withdrawn products after launch were asked whether they had undergone any form of marketing research. Only half of the organisations, (21), involved in this task replied to this question, perhaps evidence of a lack of research undertaking. However, for those organisations that did reply, (63.15%), withdrawn products had incurred some form of research during development.

5.5 COMMENTARY

The general picture of NPD in the PFS sector gained from the survey is one in which a great deal of attention is being paid to developing new products. It is not however, being undertaken in the systematic and planned fashion that is recommended in the literature. This was partly caused by the problems of copying and short lead times, which are inherent feature of the competitive nature of the industry. That competition is increasing within the sector is in no doubt. However whether organisations can use NPD to create a real differential advantage is. As the review of the characteristics of the PFS sector has shown, there is a danger that competitive forces will concentrate most of the business in this area in the hands of large organisations. The survey has further indicated

that the ability to develop new products that are innovative may also be the reserves of large companies, who have the resources to invest in marketing research, and by implication, planned NPD.

Indeed, in the personal interviews conducted with marketing research professionals prior to the survey, assertions were made indicating that the use of marketing research in the development of new products in the PFS sector was not common. It was seen as the preserve of larger firms, in most cases, the more innovative organisations and the ones adapting most quickly to the increasingly competitive environment. This fact was clearly justified in the survey, which identified a number of reasons for the very limited use of marketing research in NPD compared with other sectors:

Ease of Copying by Competitors--Table 5.12 shows that competitors are the major external source for new product ideas. Much marketing activity in NPD in the PFS sector appears to consist of rushing 'me-too' products onto the market. Accompanying research concentrates upon the tactics, (eg the advertising message, the name), rather than the strategy, (eg will customers buy this product/concept from this company?). This can be seen clearly in the number of similar products on offer to the consumer.

For example, during the early interviews, one large building society stated that although they had been the first to introduce a high interest account into the market, all of its competitors within that sector rushed a similar product onto the market pausing only to think up a suitable name. There is clearly a feeling that the low barriers to entry pressure suppliers to move quickly without much research effort of the test marketing and product/concept test types.

Product Complexity--Many respondents reported that customer reactions to proposed new products were not obtained because the complexity of PFS products were such that meaningful responses could not be easily, (or cheaply), obtained. One respondent company stated that they had engaged the services of qualitative research organisations in the past in the development of new product ideas, but had found that the results were of little practical use as consumers were generally unaware of the technical implications of their potential needs. It would seem that this line of argument could be reversed; the more complex the product, the more research is necessary to ensure that the launched

product is presented in an understandable way to consumers, and also to increase customer awareness of their real and potential needs of certain financial products. Indeed, there have been some moves to simplify product information in the insurance sector. Syndicate research conducted for some of the larger companies in this sub-sector, indicated that information supporting and promoting new and existing products was too complex for the average consumer to understand. By simplifying information and implementing a campaign for plain English, sales personnel in these companies are able to use brochures etc in their presentations and leave them with clients in the knowledge that they can understand them (interview with marketing research manager at Abbey Life).

Cost of Research--A number of respondents mentioned the cost of research as a prohibiting factor when compared to the cost of failure. The perceived cost of failure seemed to be only the direct, easily identifiable expenditure, no account being taken of the 'hidden' costs of administrative and managerial effort expended on weak products.

Accompanying these intrinsic costs are potential image problems arising from failed products affecting consumer perceptions of other products in the company's range.

Committed to Launch--Another common reason given for the non-or limited-utilisation of marketing research in the NPD process was that the firm became committed to launch the product at very early stages of its development. Two major sources for this commitment were noted. One was senior managers who for strategic planning reasons decreed that a particular product, or type of product, would be launched, (quickly). The other source noted was government intervention. A prime example is PEP's, (personal equity plans), launched in the 1986 budget, the major suppliers, particularly the banks, felt pressured to launch a PEP at whatever cost. In these circumstances, the use of marketing research was felt to be unnecessary.

Consumer Lack of Interest--There is a common perception in the industry that consumers are not very interested in financial products. For example insurance products were seen to stimulate little consumer interest or awareness, the products themselves being bought on a need basis through intermediaries who were generally seen to be motivated by price and commission. The implication is less commitment

to consumer based research, or where it is undertaken the value of information obtained is perceived to be limited.

Personal Nature of Financial Products--Research into PFS products is likely to require consumer respondents to reveal intimate financial data to the researcher. The willingness of respondents to answer such questions and the accuracy of responses are potential problems which may inhibit the use of market research (4).

Whilst marketing research is mentioned in a number of studies as a pre-requisite for planned new product development, the results of the survey indicate that although this may be so, it is highly contingent upon industry characteristics and the resources available for investment in individual organisations.

This latter requirement appears to be the province of larger organisations, but even here the survey findings show very limited evidence of the widespread use of marketing research at all stages of the new product development process.

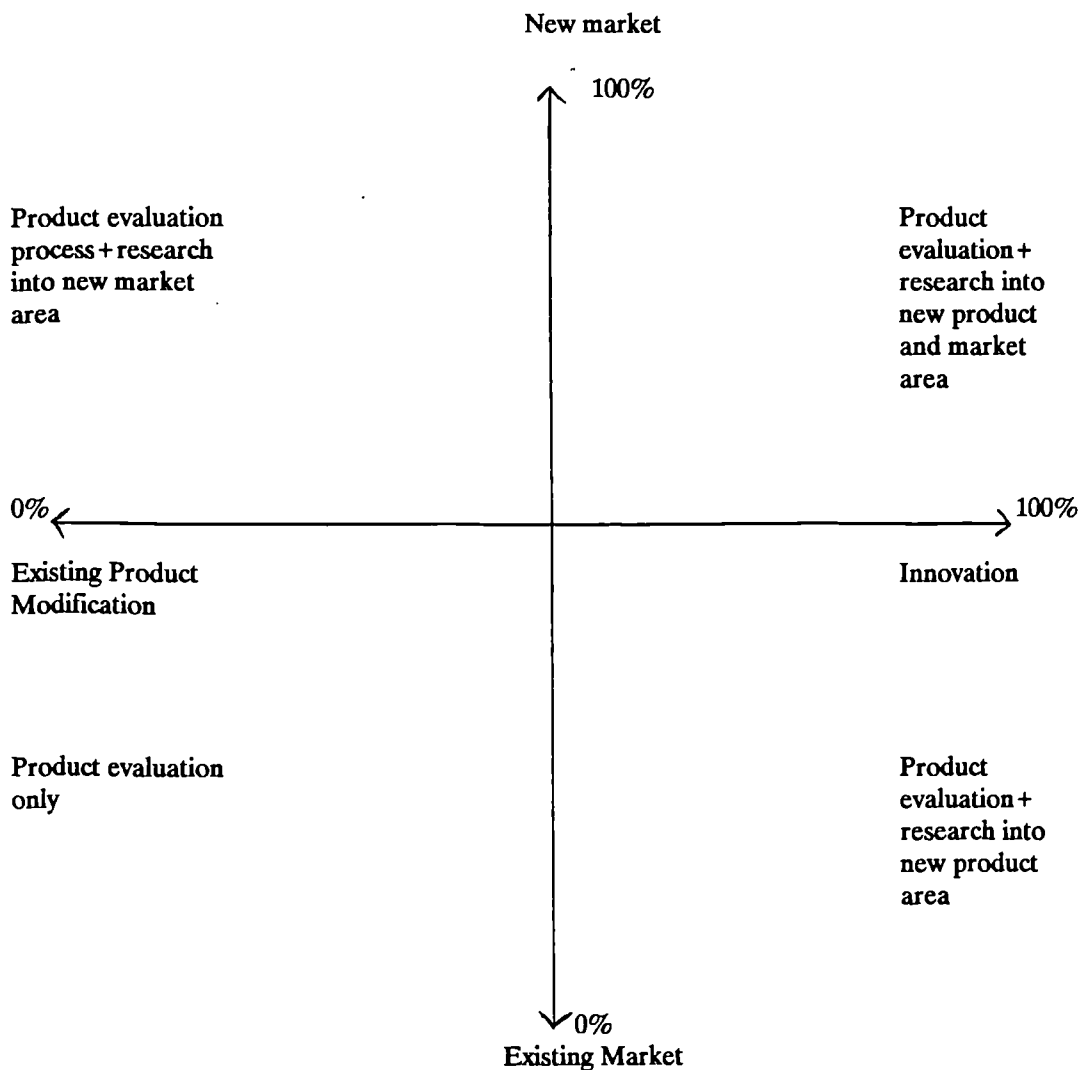
Given the individual firm's needs and experiences, as well as the fact that the environment in which it operates change over time, it may be more desirable to consider a flexible process that allows for short-cuts and modifications to the prescribed model. For example, the full scale model of NPD may be an appropriate process when an organisation is considering its first entry into a new product market. The results from the survey demonstrate that, as yet, little attention is given to this type of NPD activity. However, as competition increases it will become even more important to enter new markets with new products whose potential has been fully researched at each stage of a comprehensive NPD programme.

A more compact version of the entire process which concentrates upon the product evaluation stage, leaving out all the other stages of the recommended model, may be more appropriate when developments are concerned with existing products and/or markets. Indeed if the product and market in question are thoroughly understood, and time is of the essence this could take the form of an internal evaluation using secondary marketing research data, rather than involving the expense of gaining consumer reaction.

This proposal for a more flexible approach towards planning the development and research requirements of PFS products is depicted more graphically in Figure 5.1. The original classification of type of NPD, used in the research (P 10), which concentrated upon the degree of involvement required, provides the horizontal axis. In conjunction with a parallel axis which ranges from new markets (100%) to existing markets (0%), this provides 4 marketing research and NPD quadrants, based on the degree of involvement required.

FIGURE 5.1

DEGREE OF REQUIRED INVOLVEMENT IN NEW PRODUCT DEVELOPMENT BY
MARKET AND PRODUCT TYPE



The model indicates that the most extensive involvement in NPD is required when innovative new PFS products are being developed for new markets, this situation is indicated in the upper right hand quadrant of Figure 5.1. The least requirement for involvement is denoted in the lower left hand quadrant, ie when a company is developing a product similar to others it has previously developed, or is modifying an existing product.

Obviously the degree of required involvement in marketing research is also related to the time and resources available to individual organisations. Whilst timing is of concern to all PFS firms, the ability to invest in the infrastructure in which to carry out marketing research has been shown to be related to size. It may be the case therefore that whilst large companies are able to meet the requirements of Figure 5.1 and invest in the necessary resources for innovative NPD, this quadrant of activity is closed to small companies. Their strengths may lie in being close to the market and having a greater involvement of top management in new product development, particularly in the launch decision. It may be more of a case of developing and modifying existing products for markets that they are familiar with and understand, rather than taking the costly and risky step into developing innovative products for new markets.

5.6 CONCLUSION

On a more general note, whilst concentration has been placed throughout the survey on looking for outward indicators of an organisation's ability to undertake market research, (eg presence of marketing and/or marketing research departments, number of staff, duties undertaken etc), their existence within a company does not necessarily translate into best practice. Even with all the means available to carry out in-depth and expensive studies, the capacity to undertake marketing research as part of a NPD project is not solely resource-driven. It is also related to an overall organisational commitment to research activities, which is associated with the general perception held within a company (both those in command and line staff), of what research can and can't do. Although the survey was sent to marketing research managers who on the surface would appear to be champions for the use of marketing research in their organisations, the results have indicated that this supposition is debatable. The various reasons

given for not being able to undertake marketing research at different stages of the NPD process was accompanied by a lack of appreciation of the importance of research in the development of new products, which the literature indicates as fundamental to market success. However poor perception of marketing research could have been caused by a number of reasons.

The pilot interviews with marketing research professionals in the PFS and consultancy sectors, revealed that in some companies and more specifically banks, staff were seconded from other areas of the organisation into the marketing and marketing research departments. They did not really appreciate or understand the finer points research and at times resented the move which was manifest in their unwillingness to undergo a change in attitude. Alternatively, a marketing research manager may have been employed by a company to undertake research activity but without any real commitment to investing in the resources that are needed. Indeed, as much of the literature has indicated (Cooper 1988, Piercy 1985, Rothwell 1976), if there is no one at senior levels of management championing the positive aspects of research then there will be little commitment at the operational level. Marketing research has to be seen, therefore, to have strategic importance before it can translate into practical exercises.

The next stage of the research investigates this issue of commitment more fully through a case- study approach. At the same time, it explores other behavioural and organisational factors, such as structure, people, systems and culture in greater detail and questions their influence upon the NPD activities of a specific life insurance company, namely Abbey Life.

Footnotes

(1) - In order to overcome the potential problem of differences in respondents' interpretation of a new product, a common and simplistic definition was provided:
'a new product is something with a new name'.

(2) - One alternative definition was given by a respondent company: "our definition of NPD in this context: a general customer offering which has not been previously available from this bank". Although more lengthy it was very similar to the provided definition, and therefore did not affect the results in any way.

(3) - February 1984 to February 1987.

(4) - The researcher has in fact experienced this problem whilst conducting field work for NOP Ltd, a leading marketing research company in the UK.

CHAPTER SIX

STAGE TWO OF THE RESEARCH: A STUDY OF NEW PRODUCT DEVELOPMENT IN ACTION

6.1 INTRODUCTION

This chapter focuses upon the second stage of the research, that of a case study of Abbey Life, a life insurance company who has developed a new PFS product, Living Assurance, during the period of 1987. The focus of this part of the study is on the development of this product from its generation, through to its launch and entry into the marketplace. By concentrating on such an event within a single organisation, it is possible to analyse in greater detail some of the NPD and marketing research activities reported in the survey results. More importantly, this approach allows for closer analysis of the organisational and behavioural factors that can influence development programmes. Factors that are associated with the systems, culture, structure and staff of an organisation, are viewed as peripheral to the prescribed approaches to NPD that are found in the literature. In practice, however, they may make the application of existing rational models of development very difficult or uncommon.

The findings of this stage of the research in conjunction with stage three, form the basis of a set of guidelines for PFS companies involved in developing and distributing new products that are distributed through the means of a direct sales force. As the discussion of this method of distribution in Chapter 3 has already indicated, the complex nature of some PFS products, intense competition, and the movement towards polarization across the PFS sector as a whole, are some of the underlying factors influencing an increase in the employment of direct sales forces in life insurance companies, but also more significantly in banks and building societies. Guidelines that aid the management of the introduction of new products, can therefore be of practical use to all PFS companies using such distribution methods, irregardless of type.

6.2 SELECTION REQUIREMENTS

As already stated in Chapter 3, the company's willingness to become involved in the project was the starting point for selection. However, size of organisation, type and timing of development undertaken, were further criteria that had to be met. Size of organisation, in terms of number of employees, had been taken as an indication of a company's ability to undertake planned NPD (using marketing research as an indicator), in the survey of PFS organisations. The subsequent analysis of results, had shown that company size was an important influence on the way in which respondents' approached development projects and associated research. It was deemed necessary, therefore, to select a case organisation which was large enough to be able to commit resources to NPD activities, providing a more in-depth picture of a development project in action, than a smaller company could have provided.

A further requirement was that the selected company had developed an innovative product rather than a modification to an existing product. This was because it was felt that as the survey results had shown the required commitment to and involvement in an innovative product development project for a new market was far greater than for, say, a product extension. Abbey Life met this pre-requisite as, at the time of the study, it had recently been involved in developing and launching a new product into the marketplace, namely Living Assurance. Its generic label was that of a 'dread disease' product, and although classed as a life insurance product, it did represent a movement into a relatively new market for the company.

It was extremely beneficial to the study that the development of Living Assurance took place during the early stages of research, when time was allotted for fieldwork to be carried out. This is because of the problems associated with recall of information after long periods of time have elapsed since an event has taken place. In addition, the survey had highlighted that a limited record was kept of development activities per se, and it was therefore felt that there may be a paucity of documentary evidence in any company selected.

Although, therefore, the case study represents a retrospective study of a development project in action, details of Living Assurance were fresh in the minds of those individuals at headquarters who participated in its development, as well as those personnel involved in selling the product to the consumer.

6.3 THE ORGANISATION

The company's initial entry into the life insurance market came with a product entitled Planned Investment Endowment (PIE) in 1962, which linked a life assurance policy with a unit trust. This was viewed by Abbey Life and its competitors, as a move away from the products that life insurance companies had traditionally provided to the market. Furthermore, Abbey Life used a direct salesforce as its main method of distribution, which was a break from the traditional method of using independent brokers to sell products (1). This perhaps was the earliest indication of the organisation's involvement in innovative product development which grew to become a major strategic objective.

The company which was originally founded by Mark Weinberg, was taken over in the mid 1960's by ITT, who were involved in the manufacture of electrical products, and saw Abbey Life as a chance to diversify into new areas. During the early 1970's Weinberg left the company, to form Hambro Life (latterly known as Allied Dunbar) and in the process took with him the majority of the top management of the company. This move had an adverse effect on the internal operations of Abbey Life. By 1977 it was apparent that the organisation had fallen behind the rest of the life market, and it was believed by senior management that drastic measures were required if the company was to achieve its previous standing. In order for Abbey to revive their performance ratings it was felt that the introduction of new products were needed. However, the most popular routes to new products, undertaken by the majority of companies in the life sector, were to develop copies of competitors' products or rejuvenate existing ones. The head of marketing at the time of the study, who was subsequently interviewed, felt that such types of development would not change Abbey Life's position in the market, and therefore a decision to develop and launch innovative products was taken, primarily as

a means of re-gaining market share. At this stage of the organisation's history, innovative NPD activity was viewed as a marketing method, and a reactive one at that, rather than the corporate aim, that it later became.

The company therefore, introduced the following new life products into the market in quick succession, during the late 1970's and early 1980's, centring around the creation of a series of products eg:

Covermaster

Mortgagemaster

Pensionmaster

This move created a sense of anticipation within the company, in terms what was going to be the next innovation around the corner. A continuous stream of new products was now required, the original reasons for undertaking innovative product developments had been succeeded. Although it was clear that increasing market shares was still important to the company, by 1987 innovative product development was a key element of Abbey Life's corporate strategy. Greater reliance was placed upon new products as indicators of the company's market position, in addition to being part of the image portrayed to staff, competitors, the media and the general public. Indeed, by this time Abbey Life saw themselves as:

'a market leader in the development of innovative life assurance and related products' (1987 company report).

The reasons underlying the development of new products had gone full circle; from being the initial method of entering the life market and subsequent survival, to a major method of differentiation and market success.

6.4 ORGANISATIONAL STRUCTURE

At the time of research, Abbey Life was part of the Abbey Life Group PLC, (subsequently merged with Lloyd's Bank at the end of 1988). It was the major operating company of the group, providing life and health assurance, pensions and investment products to the public in the U.K. The company directly employed 2,000 people mainly at their Head Office in Bournemouth, and distributed its products through a self-employed sales force of 2,200 associates and brokers who were tied to the company, and therefore sold only life and pensions products in the Abbey Life range, and non-competitive products from other companies eg motor insurance. The new legislative framework, for example the cost of complying with the requirement for best advice contained in the Financial Services Act 1986, had led to a decline in sales of Abbey Life products through the independent broker channel (2). Approximately 10 per cent of total life insurance sales came from this source (1987), which comprised of independent and appointed representatives who retained autonomy but only sold Abbey Life products. Direct marketing, a further method of distribution used by the organisation, represented 7 per cent of life insurance sales in 1987.

However, the core of the company's business came from the agency division, the 75 branches across the UK accounted for approximately 83 per cent of life insurance sales in 1987. The majority of individuals involved in obtaining this business were not bound to Abbey Life by traditional contracts of employment and enjoyed independent status. Above all, they were individuals who the company saw as difficult to control, they had to be led rather than managed, and treated as partners, (they were called 'sales associates'), rather than employees. They were allowed full discretion about how to go about their work, training was given (within branch and at Head Office) on sales methods and products, and they were provided with a portfolio of financial products, administrative support and management guidance.

Although norms were laid down by the company, about call rates and the amount business expected (called Minimum Viability Levels), these were seen by the company as guidelines for motivation rather than control.

A high ratio of branch managers to sales associates existed (approximately 1:10) because of potential problems caused by this lack of control. The company advised branch managers that weekly meetings, training and product launches should take place in-branch in order to improve sales and motivate associates. However, as will be seen these events took place on a more ad-hoc basis in some branches, again implicating the lack of control that company had over the branch network.

6.5 MARKETING STRATEGY

In their annual report of 1987, Abbey Life stated that they were striving to provide:

- (a) a superior service - by means of a one-to-one well trained professional relationship
- (b) sell highly competitive products - by means of research and development activities

Such objectives appeared to be at the heart of the company's marketing strategy. In order to achieve these aims emphasis was placed upon what the organisation termed as 'sophisticated marketing.' They believed that they had evolved from being a sales organisation to a marketing led organisation, in a sense promoting a comparison with the shift of emphasis on NPD activity which had taken place. A great deal of attention was also placed upon direct selling as a means of providing a 'superior service'. The company report of 1987 stated that:

"research has shown that most of the British public remains confused about even the fundamentals of personal finance... which has grown in recent times as the financial service revolution has gathered pace."

The remedy the company gave to put an end to this confusion, was advice given by a sales associate, viewed by the company as (company report 1987):

"a trained professional....able to understand the need of people and their problems as well as being familiar with the products sold."

The company was also concerned with heightening the public's awareness of Abbey Life through television and press advertising campaigns. It appeared therefore that Abbey Life was concerned with many aspects of the marketing concept. Firstly, an emphasis was being placed on provision of superior

innovative products. This would presuppose a heavy involvement in marketing research aimed at developing new products that reflected consumer needs. Secondly, emphasis was placed upon increasing public awareness of the company, through corporate image advertising. The selling aspects of the business which were talked of in terms of form the provision of a service to the customer, was also indicative of attention being paid to the concept of marketing.

Training, and by implication personnel strategy, also appeared to be of some import to the overriding marketing perspective of the organisation. This centred around instruction, both at Head Office and in branches, on selling methods and identifying consumer needs, and product knowledge. As already highlighted, sales associates in the agency division, provided the majority of sales turnover, and as such training them to carry out their work to the fullest extent of their capabilities was a further element of the company's marketing strategy.

6.6 NEW PRODUCT DEVELOPMENT

New product development was viewed by the organisation as a basic management activity to ensure that it was able to:

" deliver a range of products that satisfy clients requirements in all key areas" (Company Report 1987)

These areas were seen by the company as:

Life insurance

Mortgages

Pensions

Investment

Health Cover

Emphasis was placed upon the need for product differentiation in the form of new products not only being competitive but having unique features so that they stood out from the "normal." This need for differentiation was associated with the probability of a growing understanding of PFS products by existing clients, who would then be able to compare products of competing organisations (company report 1987). Product innovation was seen as a way of gaining an increasing share of this more

"discerning market." In addition, emphasis was placed on products that led the market rather than followed, as well as an up-dating and re-definition of existing products to suit the changing needs of customers.

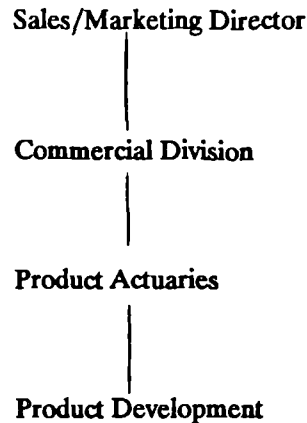
The company viewed NPD as a complex activity due in part to the intricacies of PFS products, in addition to actuarial and legal considerations. The development process itself focussed upon understanding, as the company put it, 'how the consumer thinks'. They saw their sales associate channel as providing a direct link with the client - which they named as continual marketing research. Information from this source was used as a basis for product planning, the company claiming that subsequent new products were based therefore on a practical knowledge of clients needs. Abbey Life were also very aware of the competitive nature of the product markets they were involved in, which provided a further impetus for NPD:

"Product development has to be a continual effort. Whenever a new product finds favour in the market, it is inevitable that similar products will be developed by the competition. We have a reputation of leading the way for others to follow" (company reports 1987).

This statement highlights the high incidence of copying that took place in the PFS market in general, which at the same time indicating the emphasis placed on leading the market through innovative product development by the company.

6.7 ORGANISATION OF NEW PRODUCT DEVELOPMENT

The two major divisions involved in NPD activity at Abbey Life were the commercial and marketing divisions, both coming under the control of the sales and marketing director. The design, technical development and project management of new products were undertaken by the commercial division:



The marketing division was more concerned with providing research, advertising, promotional and general marketing input into the development and launch of new products.

Figure 6.1 illustrates the position of NPD in this area:

FIGURE 6.1

ORGANISATION OF NEW PRODUCT DEVELOPMENT AT ABBEY LIFE - MARKETING DIVISION

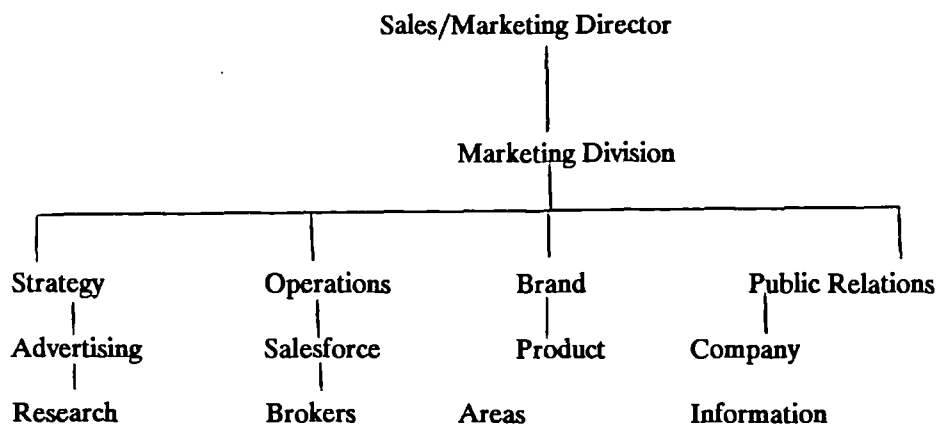


Figure 6.1 indicates the activities undertaken in each area that came under the control of the marketing division. Strategy, operations, brand and public relations functions had some involvement in the marketing aspects of new product development.

The organisation's NPD policy focussed upon the need for a continuous programme of generating ideas for new products. This policy stated that ideas should be screened against corporate strategy and

identified strengths of the company. The policy itself included the stages that were deemed as necessary in a development programme :

Stage 1 -- Marketing Brief

This was essentially a summary of a screened product idea and its potential market. The brief defined by the marketing division included:

- The target market; its characteristics and size
- Key attributes required in the product and associated services
- The pricing strategy and relation to competitors
- Distribution methods
- Sales targets
- Initial costs, benefit assessment

Stage 2 -- Product Specification

The second stage of the policy was associated with product design, in which the actuarial department produced a formal specification of all aspects of the proposed product, including:

- Statement of benefits provided
- Limits to apply to the benefits
- Methods and frequency of premium payment
- Evidence required for underwriting and claim settlement
- Investment basis for any investment element of the product
- Product charging structure
- Commission payments

Stage 3 -- Marketing Exploitation Plan

This was based upon the product design and set out the actions required to launch the proposed product to the market:

- Definition of target audiences and an analysis of the marketing messages that should be conveyed to them

- Sales channel support requirements for each distribution method
- Client literature at point of sale and post sale
- Advertising and PR activity for consumer and trade press/media

In addition, the actions responsibilities and timescales are established for all the elements of the exploitation plan.

Stage 4 -- Product Implementation and Control

This stage involved the appointment of a project leader/team to ensure that the various activities required to support a development project were in place and under control.

Stage 5 -- Product Launch

Concern at this point was centred around the necessity to sell a new product to the sales channels by providing product information and support to intermediaries, or motivating personnel to sell by communicating the importance placed on a new product and the company's commitment to it.

Stage 6 -- Post Implementation Review

The last stage of the company's NPD policy included feedback in the following areas:

- sources of business against expectations
- distribution of business by client type
- impact on sales levels of other products
- competitor response
- field reaction to product, literature and service

It can be seen therefore that a well defined NPD policy was in place in the organisation, which indicated not only the underlying importance placed upon NPD activity at a corporate level, but also implied that a logical and planned approach to development projects would be taken.

6.8 THE NEED FOR A NEW PRODUCT

Although the organisation's NPD policy stated that ideas for new products should be achieved through a continuous programme of research through internal and external sources, the genesis for the development of Living Assurance came out of a direct command from the marketing and sales director of the organisation. The company had, as already shown, built a reputation within the industry for being innovative. In addition, they appeared to be marketing themselves to their shareholders and their customers, as being a market leader.

However, the impending changes in the regulatory structure and the general increase in competition from both traditional life companies and competitors in the mid 1980's, forced the company to re-examine their position in the market. One outcome of this examination indicated that there was a need for more new products, and the marketing and actuarial divisions were given the brief of finding:

‘a product that has not been sold on the UK market before, within a 6 month time frame’.

To this end a small team of individuals from the actuarial and marketing divisions were brought together in July 1986, with the aim of developing a new product that met the stated objective. They were seconded from their normal duties in order to concentrate on this task. The next section of the case study discusses how the team went about the development project.

6.9 THE DEVELOPMENT OF LIVING ASSURANCE

6.9 (i) - Idea Generation

The company's NPD policy provided the obvious starting place for the team and with this as guide to subsequent activities, they set about generating ideas for the required new product. The following methods were used to amass as many ideas for new products as possible:

- (a) Mail Shots - these were sent out to all staff who had direct contact with the consumer, asking for any ideas for products and services that could be developed by the company. As an incentive to return the forms, a magnum of champagne was offered to the most innovative ideas put forward. Approximately 200 ideas were received through this source.
- (b) Branch Visits - group discussions were held at various branches throughout the different regions, with a cross-section of field staff (ie branch and group manager, sales associates, brokers).
- (c) Brainstorming Sessions - these took place at head office and involved several different levels of employee from group directorate to junior managers.

Over 500 ideas were gathered for new products and services through these methods. The type of methods chosen were dependent upon the resources available to the team. Although research into consumer needs/ideas for new products could have been conducted, it was felt that the timing of the project did not allow for such work to be undertaken. Whether any further research into the needs of individuals who were potential purchasers of life assurance products, would have increased either the quality or quantity of ideas put forward internally, is open to question.

A secondary purpose of the in-house search for new product ideas, was to provide motivation to associates. Senior management believed that it was important for staff in the field (and at head office), to receive visible signs that indicated Abbey Life was involved in a major new development. A by-product of the project therefore was the improvement of company image, and to uphold the majority of associates' belief that the company was a market leader. Indeed, an agency opinion survey conducted for the organisation in 1985 had shown that 87 per cent of associates (1,212 total) saw Abbey Life as: "a

trend-setter in the market with its innovative products". However there had been limited innovative development since the introduction of Cover-Master in 1982. The survey had also highlighted a problem of communication between Head Office and branches, brought about by the feeling that there was a lack of opportunities for associates and managers to air opinions. Apart from the in-house journals of "Horizons" and "Abbey Life News" it appeared to associates in the field that there was very limited feedback from Head Office. The search for ideas for a new product in the field, therefore represented an internal public relations exercise in terms of:

- Abbey Life being seen to involve the field in a major NPD exercise and therefore valuing their expertise and knowledge of the market
- creating a feeling of excitement and anticipation of the forthcoming new product.

6.9 (ii) Idea Screening

As already stated, a total of 500 ideas for new products and services were generated, which were then sorted into three main classifications:

- (1) Administrative - ideas associated with how current administration/systems could be improved
- (2) Sales/Marketing - ideas for new methods of delivery of existing products
- (3) Product Type - Classifying the idea into groups eg. health, accident, home.

Ideas in each category were then reviewed in more detail by the project team. The company's NPD policy stated that ideas should be screened against the corporate strategy and strengths of the organisation. In order to fulfil this pre-requisite a major criterion for the new product was that it was innovative, ie competitive, with unique features so that it stood out from the rest of the market. It also needed to appeal to the field, as this was the major method of distribution of the company's products, and without associates' or branch managers' approval and commitment, a new product could fail. Apart from these requirements, the most significant factor in deciding which ideas were potential new products, was the initial brief that 'the product had not been sold on the UK market previously.'

Five potential new product ideas were deemed to meet these criteria, and were presented to the sales/marketing director in November 1986. A decision was taken to concentrate resources on developing a 'dread disease' product, mainly because it was seen to have a relatively short development time frame as it could be sold as an add-on benefit to the company's existing life product Covermaster. It also appeared to be 'relatively' new on the UK market, and therefore could be marketed as innovative.

The idea for a dread disease product was attributed to the following sources:

- (a) Ambassador Life, the direct marketing arm of the Abbey Life Group, had already investigated the general concept of dread disease cover, and discussions with them highlighted the idea.
- (b) Two members of a group discussion held at the Newbury branch had worked in the South African life market, where dread disease products had proved very popular. They believed that the concept could be a similar success in the UK and were able to contribute some in-depth information about the technical and marketing aspects of the South African product.
- (c) Through brainstorming sessions at Head Office, an idea for a smoking policy was discussed, which was essentially concerned with provision of cover against the contraction of a smoking-related illness.

Further research indicated that dread disease policies had also been sold in Japan and the United States for several years. The American product was in the form of a medical expenses indemnity plan, which paid out the cost of treatment for defined diseases, although the majority of policies concentrated on cancer insurance. One US company, American Life, had launched their plan in the UK in 1979, but it had been unsuccessful due to it being seen by the media as profiting from a general fear of cancer. This marketing problem had not occurred, however, in South Africa, where the benefit of the policy was marketed as being an advance payment of the life sum assured on the occurrence of a specified disease. The message therefore did not concentrate on the spectre of death, but emphasised more

positive outcomes ie the ability to make life more comfortable following the onset of an illness from which it was possible to recover. Apart from American Life's brief entry and exit into the UK market, two UK life companies had introduced dread disease products to the UK marketplace. In 1985 Lloyd's Life introduced "Living Assurance" to the consumer, being a term insurance (3) based on the dread disease concept, and sold through newspaper advertising only. However, under 100 cases were sold in total, due in large part to the distribution channel used (Victory Reinsurance 1987). The second UK company to introduce a dread-disease product to the UK market was Cannon Lincoln. Critical Illness Cover was launched in 1986 and essentially was a benefit dread disease facility attached to their existing unit linked whole life product.

6.9 (iii) Product Attributes

In order to overcome the fact that the idea for a dread disease policy did not meet the criteria of not being sold in the UK market before, the project team decided that rather than develop the product as a add-on benefit to Covermaster, they would take a fundamentally different design approach to Cannon Lincoln and Lloyd's Life, and emphasise the dread disease aspects. After discussions with representatives from various divisions within the organisation and with external sources such as Victory reinsurers, the product was designed to incorporate the following attributes:

- stand-alone product, with option to link to Cover Master
- no maximum age limit
- £100,000 maximum cover
- rates for smokers/non-smokers

These attributes were seen by the project team as being distinctly different from the Canon-Lincoln policy which was more an add-on benefit to their existing unit linked life product, the maximum age of policyholders was 60 (F) and 65 (M), it applied to non-smokers only, and the maximum cover was considerable lower than the £100,000 proposed by Abbey Life. The main advantage of a stand-alone product was felt to be the increased sales potential that it would give if marketed as a major feature of Abbey Life's product range.

In addition, because the premium would be higher than for life cover alone, commission levels could look attractive to intermediaries, relative to other products. It was believed that the product was one that all members of the public had a defined need for. Furthermore, it was felt that it would appeal specifically to individuals with no dependents for whom traditional life products had limited value. By emphasising a message of benefit, in the form of a lump sum to the individual who paid the policy premiums, this market segment could be targeted.

6.9 (iv) Distribution Methods

All three of the company's existing distribution channels were viewed at first by the project team as being capable of delivering the product to the end-consumer. However, the poor response that Lloyd's Life had experienced with media advertising, indicated that direct marketing would not be a popular method for the product. It was also believed that it was important to communicate to prospective customers, the need for the product by highlighting the high incidence of dread disease illness, and the benefits that Living Assurance provided. Further appraisal of distribution methods indicated that this would be best achieved through personal contact, and therefore agency and broker channels were concentrated on as the main selling mediums.

6.9 (v) Product Specification

This stage of the development project focused upon the design of the product, which included a detailed specification of technical aspects. A major issue faced at this stage was the problem of a lack of directly relevant product experience in the UK. As dread disease cover was a relatively new concept in the UK market, very little data had been previously gathered which could be used to form a basis for product feasibility and pricing. The limited marketing research that Cannon Lincoln had carried out for their product was testing the reaction of their sales force, and the results from this exercise were not very significant as sales had only been in the hundreds rather than thousands since its launch in 1986.

(Victory Reinsurers 1987). In order to rectify this problem of lack of product information, discussions took place between representatives of Abbey Life's actuarial department and Victory Reinsurers.

The question of defining a dread disease was an important starting point for discussion. It was decided that the definition should include heart attack, cancer, coronary artery by-pass surgery and complete kidney failure. From this basic definition, information on the following areas was obtained in order to derive premium rates:

- Incidence rates of diagnosis of the specified diseases
- Survival rates of lives who had contracted those illnesses
- Proportion of deaths where the cause was directly attributable to a specified dread disease.

Sources of data for each defined illness varied, for example, information was obtained from the Office of Population Censuses and Survey (OPCS), who provide publications on areas such as morbidity statistics from general medical practices. Demographic information such as location, life-style, social class and genetic factors were further variables that had to be taken into consideration as they also influenced the incidence rate of various diseases.

Furthermore, it was important for actuarial staff to consider which of these socio-demographic variables were relevant and the degree of importance to attach to them.

At this stage it seemed that a great deal of information would be required at the point of sale. Because of the potential risk factors involved, a proposal form for the product was going to have to include specific questions on a prospective policy-holders medical history (eg heart disorders, diabetes, circulatory problems, cancer, stroke, kidney and urinary problems), as well as height and weight. It was apparent that there would be also be a need for information about family history, eg health of parents prior to a specific age. All of this knowledge was required in order to ensure that premium rates could be applied in accordance with the individual's personal circumstances.

The search for information relating to the incidence of dread disease was seen by the organisation as a very important stage of the development project. As the product in its present form had not been on the UK market before, estimations were difficult. The price of the product had to be calculated in advance, in order to forecast sales revenue and profit which were major determinants of the product's feasibility and subsequent launch. However, against this requirement for detailed rating information,

little was known about possible consumer reactions to the new product. Several reasons were suggested by the project team for this disregard:

- (a) Time constraints, it has already been noted that the development project had been allotted a six month time frame, which mitigated against the use of consumer research which was seen as time consuming.
- (b) A marketing research programme would have alerted competitors to the company's involvement in a new development, and obtained information on more specific aspects of the proposed product.
- (c) Research into consumer reactions was believed to be inappropriate as they would not understand many of the technical aspects of the product.
- (d) Although the rating structure was an integral part the product design, it was not seen as a significant aspect of the point of sale. The client bought more on intermediary recommendation than on any specific product attribute.

6.9 (vi) The Marketing Exploitation Plan

A marketing exploitation plan was drawn up by the project team, a member of whom was selected to implement and co-ordinate the various activities associated with the preparation for launch of the product. An action plan of the technical and marketing aspects of the new product was sent out to all heads of department across each division within Abbey Life during December 1986. This document invited feedback from the departments such as administration, training, marketing etc., who would be involved in designing and implementing the appropriate systems, programmes and support material for the product. Feedback indicated that members of staff within several departments found the product concept difficult to understand, as they were used to dealing with the traditional life and unit linked

products in Abbey Life's portfolio. There had been limited prior involvement of departments in the generation and development of the product, indeed the development had concentrated on mainly actuarial aspects. It was felt by some employees, that certain aspects of development, such as those relating to product complexity, had not been taken into account.

The marketing exploitation plan indicated the date for product launch, which brought further complaints from department heads, associated with existing time and task allocations. The project had been completely unscheduled, in addition to having been undertaken during a short time period. This extra activity which required input from a number of departments across the company, had not been taken into account in yearly plans and timetables, and therefore was viewed as increasing workloads.

A final product specification and marketing exploitation plan was drawn up and sent to the Board on 9 March 1987. This included all the variables related to the product, such as the marketing, administration and branch requirements and also budget, sales revenue and profit forecasts. However, estimates of potential sales and subsequent profits were only approximations, due to the limited availability of data or product experience. By this stage of the project, many departments were taking steps to ensure that they would be ready for the product launch, even though formal acceptance by the Board had yet to be given. However, this was seen as more a case of getting a final seal of approval, rather than the product's survival being in balance.

After the launch of Living Assurance had been approved by the Board, a further team was set up at this stage to aid the implementation of the activities required before product launch. This comprised of representatives from each department, who took responsibility for overseeing the areas that each department had to undertake, which included:

- design of literature
- product marketing
- administrative systems
- training programmes for Head Office and field staff.

Each area was broken down into a number of discrete tasks, that had to be completed by specified dates that were in line with the launch timetable. For example, training programmes for the administration of the new product included developing an overall strategy and designing training material for manuals and information packs for use at Head Office and in branches:

Head Office Strategy/Plan Agreed	February 13-27
Branch Office Strategy/Plan Agreed	February 13-27
Head Office Training Pack Completed	March 13 - May 18
Branch Office Training Pack Completed	March 13 - May 18
Head Office Training Completed	May 15 - 22
Branch Office Training Completed	May 15 - 22

The launch date for Living Assurance had been set for June 2 1987, and many of the activities that needed to be in place before launch had been left until the last minute. The reason for this was associated with the possible leaking of information about the product and subsequent loss of impact at launch. It was not seen as so much a problem of competitors obtaining information, but more associated with field staff anticipating the exact nature of the new product and it appeared that it was their reaction that was most important to the company.

6.9 (vii) Marketing Research

Very little marketing research had been carried out to obtain consumer reactions towards the new product. What had taken place, had been conducted with the internal NPD committee. This was a group of senior managers, from branches and head office who met on a quarterly basis to discuss possible new product ideas and vet existing developments. Little is known about their reactions to Living Assurance, indeed one member of this committee who was subsequently interviewed, had no recollection of a presentation of the product. Nevertheless, it was at the pre-launch stage that

marketing research was carried out in order to establish the most appropriate advertising message and medium for Living Assurance. To this end a marketing research agency (Gallup Poll) was engaged to investigate consumer reactions to the new product.

A number of group discussions were held to gather information around which a questionnaire was designed. The agency proposed that discussions were filmed as they were seen as providing material for a public relations exercise - ie visual evidence of the consumer's need for the product.

Three distinct groups of consumers were involved in the discussions. In order to add weight to the findings it was specified by the agency that groups should include at least four respondents who had suffered the non-accidental death of a relative within the two years prior to the research (1985-1987), and who met the following socio-demographic requirements:

- (1) Group 1 - Upmarket, AB/C1 social classification, to include males and females between the ages of 40-65.
- (2) Group 2 - Downmarket, C2/DE social classification, other specifications as for group 1
- (3) Widows/Widowers - Males and females of 40 and over who had lost partners during the last two years.

Discussions centred around the events associated with bereavement, and the relevance of a product that provided a lump sum before death. The subject areas were therefore ones that required very sensitive handling. Indeed, it was discovered that some respondents who had agreed to take part in the research, found some of the topics upsetting and could not go on with the discussions. For this reason it was found difficult to film the groups in action. In addition, it was clear that any subsequent video could not be used for promotion purposes, and therefore the idea was abandoned (4).

On the basis of the findings from the discussion groups, a questionnaire was designed by the commissioned agency. Street interviews were conducted amongst a national sample of 989 individuals between the ages of 30 and 60 years of age. The results of this survey indicated that 28 per cent of respondents were potentially interested in the product. This interest was associated with factors such as the bereavement experience; 14 per cent of all respondents had lost a relative or someone close to them during the two years prior to the survey. An additional 14 per cent of respondents stated that they

had personal fears of contracting one of the dread diseases, and 13 per cent questioned their own ability to cope financially with serious illness. The findings of the survey were presented in the form of the press release and also used as part of the company's launch package to their field force. The survey highlighted such things as the types of illness most people fear, the age groups and gender of those individuals most concerned about serious illness and the most significant problems associated with contraction of a dread disease. Although, the survey indicated a need for Living Assurance, this evidence was based on rather subjective questions. In addition, the primary purpose for the research was to provide material for the launch of the product, and to that end it needed to be positive.

Further research was undertaken by the company's advertising agency, Boase Massimi Pollitt, to aid the development of a television commercial aimed at selling Living Assurance to the consumer. The agency believed that such an advertisement needed to announce the existence of the product, in terms of a new type of protection policy, in addition to explaining the uniqueness of its attributes, and benefits to be gained by a purchaser. Research that was carried out in this case, was concerned with establishing consumers' views of Living Assurance. Three group discussions and eight in-depth individual interviews were held, with the following types of consumers:

- (a) Men - B/C1, age group 25-35. Half of the respondents to be single the rest married. No life cover.
- (b) Men - B/C1, age group 25 - 35, Married with children, home owner and life cover.
- (c) Men - B/C1, age group 50-55, married, home owner and life cover.
- (d) Women - B/C1, age group 30-45, married, home owner.

Although the product appealed to a number of individuals, the major findings of the survey indicated that interest was generally limited by concerns over the cost of the form of cover. This was the first time during the development of Living Assurance that consumers' attitudes and reactions to the product were gathered. The manager of the in-house marketing research department found some of the results, from both of the commissioned studies, worrying due to low response rates to some questions asked and the somewhat negative indications of the product's market success. However, at this stage, even if response to the concept had been very poor, it was far too late to disband the project, there was

a general feeling amongst staff interviewed that Living Assurance would have been launched irregardless of results.

6.9 (viii) The Product Launch

Living Assurance was launched on June 2nd 1987 at the Excelsior Hotel in Birmingham. The launch was attended by branch managers, brokers, several members of staff from head office, and the press. To publicise the product and indicate the significance of its' introduction, Gordon Heald, Managing Director of Gallup Poll, was asked to unveil the results of his company's 'bereavement recall study' which had been undertaken on behalf of Abbey Life. The most significant findings of the survey were highlighted in order to indicate to the audience the need for Living Assurance. For example, the research had found that many of the respondents (87%) were not really concerned about dying. However, a number of people were concerned about falling seriously ill and unable to work. The new product would pay out a lump sum of money to help in such circumstances and therefore alleviate such worries. The underlying marketing message was summed up by John Davies the then head of marketing, who emphasised how Living Assurance differed from traditional life policies:

"If I could show you a way to collect on life assurance without actually having to die, would you be interested?"

Living Assurance was introduced to the audience as a permanent health insurance/traditional life policy hybrid, that included a unit-linked whole of life plan that paid out the sum assured (up to 100000 pounds) in a single lump sum when a policy holder had been diagnosed as having a range of pre-specified serious illnesses. The plan could be taken out by anyone between the ages of 17 and 70 if they met selection requirements. Policyholders had a choice of investing in any of five Abbey Life unit-linked funds; property, equity, managed fixed interest and indexed investments. An example of policy price was also given. For a sum assured of 20000 pounds a 30 year old male non-smoker would pay premiums of 15.44 pounds rising to 62.07 pounds for a 55 year old. No capital gains or income tax were

payable on the policy benefit if a successful claim was made, or if the surrender value was taken after 10 years of contributions.

Although Living Assurance was launched as a policy for which there was a general need, a major segment of the market was presented as being amongst individuals who were unattached because they were single, separated, divorced, or widowed. It was argued that traditional life cover held little interest for such consumers, as they had no dependents to consider, however they experienced financial difficulty in coping with a major illness (Gallup survey). The appeal of the product for branch managers and brokers was therefore seen to lie in the company's message that Living Assurance was:

"the perfect door-opener to new clients."

Early press reports of Living Assurance were favourable (see Appendix 5), and summed up the results of the Gallup survey and the main marketing message behind the product. However the question of the high price that the consumer had to pay for the product was raised by several reporters (eg Financial Times, Sunday Telegraph, Glasgow Herald, Daily Telegraph, Sunday Express). For example, the Sunday Telegraph (June 7, 1987) pointed out that premiums were on average 80 per cent more expensive than for a normal life assurance policy.

6.9 (ix) - Sales of Living Assurance

After the launch had taken place, branch managers were given sales and marketing packs and went back to their branches and launched Living Assurance to their associates. Scripts were also provided by head office to guide presentations, as well as in-house promotional material. In terms of overall sales, Living Assurance represented 11 per cent of Abbey Life's turnover at the end of 1987, and was deemed by the company as a success. Closer analysis, however, revealed that sales were coming from a small number of branches and were not spread evenly across the country. In addition, as sales were increasing, those of other products were falling. It was apparent that the success of the new product represented 'switched' sales and were not incremental gains for the company. Indeed, during interviews and discussions, it was found that several associates were concentrating upon selling Living Assurance to the exclusion of all other products in their portfolios. By June 1988, sales had fallen to 8.6

per cent of all cases sold. Several reasons were identified by the marketing support manager and marketing research manager at head office for this decrease:

(1) The design of the 'fact-find' - this form was used to comply with FSA legislation, ie it enabled associates to give the required best advice, based on an assessment of clients' needs which the fact find highlighted. It was found on reflection, that the form was not explicit enough in identifying a need for dread disease cover. The requirement for the fact find to be changed to include questions relating to cover for heart attack, cancer, etc, had not been anticipated when other promotional literature for the new product had been designed. However, this begged the question of how Living Assurance was being introduced to the consumer. During discussions, it became clear *that in some cases the fact find was not filled in at the point of sale*. The associate was not interested in doing a complete audit of all the client's details to get a complete record of needs when presenting Living Assurance, as they were targeting a specific area of cover. It appeared, therefore, that sales of the new product were less likely to come from general visits to new and existing clients, where the fact find was the vehicle around which an associate introduced products. In effect, Living Assurance sales were coming from more specific presentations, where other products were only introduced as a last resort.

(2) Towards the end of 1987, the sale of life products started to fall due to changes in pensions legislation, which brought the need for retirement cover to the fore. In order to meet the demand that the new legislation was envisaged to bring, the company set about developing a new pensions plan that was launched in March 1988. The sales of this product grew and by the end of the year, sales of pensions had increased by over 50 per cent over 1987. However, as already seen with the introduction of Living Assurance, this gain was at the expense of other products in the company's portfolio, which were mainly life related policies, such as Living Assurance.

(3) The company had been totally absorbed in complying with the requirements of the FSA legislation, for example, re-designing all the marketing literature to include the concept of best advice. Whilst it was stated that the company was aware of the problems associated with Living Assurance and life products in general, it was also pointed out that they had little time to effect any re-positioning activity.

(4) The very limited marketing research that had been carried out at the pre-launch stage of development, had indicated that there was some concern over price. In addition, although the target markets had been defined as general, ie all consumers and more specifically single, divorced people with no dependents, it was apparent that it was the ability to afford the premiums that was a key factor in product sale. Many potential purchasers had a finite amount of income to spend and were investing it in pensions and mortgages rather than dread disease cover. The fall in sales of Living Assurance was not, however, experienced in all branches across the UK. For example, it was discovered that in one branch, which had achieved a good turnover of sales (13.5%) up to the end of 1988, 75 per cent of this turnover had been achieved by one associate. A further branch had enjoyed sales representing 18 percent of their turnover. It was found that this was a predominantly Asian branch selling to Asian clients who were in the main small to medium sized business owners, and were seen as more keen on the product. This appeared to be the general pattern in branches visited, those with sales of Living Assurance centred around a small number of associates who were enthusiastic about it, rather than being spread evenly across all associates in a branch. Premiums being achieved varied, although it appeared that the majority of sums assured were around 20,000 pounds. Only one associate taking part in the group discussions, was selling policies with the maximum premium of 100,000 pounds attached. He was concentrating his energies on selling Living Assurance, because it offered an opportunity to contact existing customers and to meet new clients through customer referrals. For example, during September 1987 he had not sold any other products apart from Living Assurance and had achieved sales of 3 million pounds during that time period. Whilst this represented an excellent turnover figure to the company, it was also made up of 'switched' sales as he had devoted all his attention to Living Assurance, therefore the sum could not be viewed as total incremental gain. This however, was the exception to general pattern of sales, with a larger majority of policies sold on a minimum premium basis (15 pounds a month or £12 a month - sum assumed 20,000 pounds), aimed at the 20-30 age groups, for whom the cover was cheaper. In those branches that were experiencing a low turnover of Living Assurance cases, sales were coming mainly from head office referrals, ie a customer contacting the headquarters directly through direct marketing channels and

requesting information. This request was then sent out to the appropriate branch. However limited direct marketing took place as it was thought that because of the complexity of the product a more personal, advisory style of contact was required.

6.9 (x) Competitor Reaction

By April 1989, there were approximately 15 products on the market providing dread disease cover. As Table 6.1 illustrates such policies have differing age limits and amounts of cover. In addition, Abbey Life remains the only life company that markets the product separately. However even though these differences remain, the moves made by competitors' demonstrates the reactive nature of the PFS market and the amount of copying that does take place.

TABLE 6.1

DREAD DISEASES BENEFITS BY COMPANY, COVER AND AGE*

Company	Age Limit	Cover
		(£)
Abbey Life	70	100000
Cannon Lincoln	59	50000
City of Westminster	54	100000
Economic	54	100000
Equity & Law	54	75000
Fleet Friendly	49	10000
Gresham Life	54	100000
Hambro Guardian	64	100000
Hill Samuel	79	100000
London & Edinburgh	64	20000
MI Group	54	100000
NM Schroeder	54	10000
Premium Life	54	-
Providence Capitol	54	50000
Regency Life	69	100000

Source: Irving 1989

* (as at April 1989)

Many companies who have entered area have tried to introduce a variety of benefits in an effort to try to differentiate themselves. Cannon Lincoln who were technically the first entrant into this field, had updated their existing product by offering a 'menu' of options, which included organ transplants.

Furthermore, it was increasing its cover limit from 50000 to 100000 pounds to match that offered by Abbey Life. The market for dread disease cover was one which was seen by the industry as having

potential for growth. Indeed many of the major reinsurers had produced literature on the dread disease concept, which they were sending to PFS companies as a vehicle for marketing their services. Mercantile & General reinsurers, for example, sent details of a survey of this market to around 120 life companies and the top 20 building societies, and were expecting to see a further increase in the number of organisations offering this type of insurance (Irving 1989). With more competition in the market for dread disease products, Abbey Life may experience a further fall in sales. However, an internal promotional programme was being undertaken, which was set to take place during the summer of 1989, in an effort to try to re-establish the early success of Living Assurance across all branches in the company's domain.

6.10 DISCUSSION

New product development at Abbey Life appears on the surface to be undertaken in a fashion that is very similar to that recommended in the literature. A number of pre-defined stages and requirements are set down in the company's NPD policy, which provides a guide for good practice in development programmes. The company also promoted itself as being marketing lead, and therefore concerned with developing new products that were based on defined consumer needs. However the case study has shown that there several underlying organisational factors that restricts the application of this approach at Abbey Life:

(1) The product development function is mainly actuary led. It is firmly placed within the commercial division and not the marketing division, although the latter area does have some involvement in the marketing aspects of a new product.

There appears therefore to be a greater emphasis placed upon the financial aspects of development rather than on those associated with marketing research.

(2) Following on from this first point, marketing and by implication marketing research, had a peculiar reputation in the rest of the company. It was viewed as a soft option, actuarial staff felt that they had

sufficient product knowledge to be able to undertake the task of marketing themselves, and the sales force appeared to feel that they were doing the real work of marketing, (ie selling), in the field. Indeed as more than one respondent at head office stated, a problem of conflict existed between the formal and informal organisational culture. On the surface there was evidence in the company reports and policy documents that the company was marketing led, whereas in fact the most powerful coalition in the company were actuaries.

(3) Stage 1 of the company's NPD policy requires that a marketing brief is put together. In such a document target markets are specified for new products, however identified segments do not undergo research at this stage. The requirement for, and depth of research has been suggested in Chapter 5 to be contingent upon the type of new product development undertaken (product/market). For innovative products, such as Living Assurance, that are entering new market areas (the lack of pricing information indicates just how new this market was in the UK), it is argued that as well as undergoing evaluation at each stage of the full-scale NPD process, there is a requirement for in-depth marketing research from a very early stage of a product's development. Indeed on a more general note the marketing research manager at Abbey Life felt that there should be far greater involvement from this area in NPD projects:

"the research function should get involved at a very early stage, either feeding in ideas from other studies, for example gap/segmentation analysis, or researching the feasibility of ideas received from other sources....but to not get any consumer feedback is really asking for trouble at a later stage."

(4) Reliance was placed upon gaining feedback from the sales force to find out what consumer needs and attitudes were in general. The sales associate channel was viewed as providing continual marketing research which was used as a basis for product planning, although no reaction was gained in specific development projects due to the need for secrecy. Whilst this can be a valuable source of information, it is supplementary to the main body of research that needs to be undertaken to ensure that PFS markets are fully understood. However, the company had not invested very heavily in a marketing research infrastructure in which such requirements could be met. The marketing research function had

from its early instigation in 1984 just one member of staff. This situation changed somewhat in January 1988 when another two individuals were employed. Additionally, the total marketing research budget for 1988 was 50000 pounds, which in comparison to other large life companies such as Norwich Union, whose budget was ten times that amount for the same period, is low.

(5) As the results of the survey have already revealed, the intermediary was viewed as the customer by a large number of insurance companies. It was evident that a great deal of effort went into motivating and enthusing field staff at Abbey Life. Indeed, the NPD policy specifically stated that the product launch was aimed at branch managers and associates. Whilst they were being viewed as customers of new products, they were at the same time being relied upon to provide information about end consumer needs. With such differences in perception existed, it is questionable whether associates could provide completely objective data for product planning. It could be argued that they were more likely to provide information that met their own interpretations of client requirements, which would be tempered by a number of inherent exaggerations and distortions.

(6) The realities of the PFS market meant that time was of a premium, and in order to be first in the market, new products had to be developed in very quickly. An approach to NPD that was more marketing led would have required an investment of time and money in in-depth consumer research. This may well have conflicted with Abbey's Life stated aim of being seen as a leader in the life industry, indeed as the postal survey highlighted, valuable lead time can be lost whilst research is being conducted.

(7) As the case study illustrated, although a NPD policy existed, there was little indication of allowance for continual NPD activity within the structure of organisation activities. Instead of allowing for the probability of development projects, given the emphasis placed upon new products at senior levels of the company, divisional plans and timetables were scheduled around existing product requirements.

6.11 CONCLUSION

The combination of the above factors placed restrictions on Abbey Life's corporate objective to be market driven. More specifically, the development of Living Assurance took a decidedly product-led approach. A marketing approach would, theoretically, have included some form of consumer research at the idea generation, or marketing brief stages to ensure that the new product was meeting a defined market need. In effect, its feasibility was judged on price and profit considerations. Whatever the idea the team and marketing director had chosen, as long as it appeared feasible, mainly in terms of revenue and profit forecasts, it would have been developed and launched, as it had been decreed by senior management that a new product was needed. Such political motives for development further restricted Abbey Life's ability to develop the new product in a similar fashion to the general NPD model recommended in the literature.

The first time that consumers attitudes and reactions to the Living Assurance were gathered, was at the pre-launch stage of the project. At this late stage, time and money had been invested in the development. Although there were some indications that consumer reaction might not be entirely positive, the pre-determined nature of the project, meant it would have been launched irregardless of results. Furthermore, this research was undertaken after the decision to go ahead had been received, and was used as a promotional aid at the launch of Living Assurance. However, the case study has also demonstrated that a company's ability to undertake marketing research and develop successful new products can be limited by several organisational and environmental factors. A basic conflict existed in Abbey Life's desire to be innovative and market led, and their apparent lack of commitment to or investment in marketing research. In order to be marketing driven in its approach to NPD activity, a company must, therefore, not only put into place the infrastructure that is needed to carry out the research underpinning development projects, but also make certain that the needs of the consumer are accounted for at all levels and in all functions across the company.

The next chapter presents the results of the third stage of the research; the findings from the discussions and interviews held with associates and branch managers in the field. In so doing it provides more detailed information about further organisational and behavioural factors that impinged upon the market success of Living Assurance, adding greater definition and clarity to the portrayal of the realities of NPD in the PFS sector.

Footnotes

1 - Also industrial salesman ie 'the man from the Pru'.

2 - For a more detailed discussion of the effects of compliance see Ferguson 1988, who basically argues that the cost of compliance is frightening many brokers into the tied route) (Ferguson A (1988), The Struggle for Life, Management Today, October, pp95-99)

3 - Term insurance relates to policies which have a specified life associated normally with the retirement age of the policy holder eg 60/65.

4 - The ethical considerations of using such material for PR activity, is outside the parameters of the case study. However, it is an issue that is gaining momentum as consumers become increasingly concerned about the possible subversive effects of marketing.

CHAPTER 7

BEHAVIOURAL AND ORGANISATIONAL FACTORS INFLUENCING THE SUCCESS OF LIVING ASSURANCE

7.1 INTRODUCTION

The following chapter presents the third stage of the study which concentrates upon the qualitative findings of the interviews and group discussions held with branch personnel at Abbey Life, which included 68 sales associates and 10 branch managers across 10 selected branches in England.

The major purpose underlying this stage of the research was to investigate the respondents attitudes and views of a number of organisational and behavioural factors, such as structure, staff issues, systems and culture which were seen in the literature review as having some degree of influence over new product success or failure. Such factors were believed to influence not only respondents decision to adopt or reject new products, and in particular Living Assurance, but also the market outcome of a new product.

Section 2 of this chapter introduces the conceptual framework for the qualitative analysis of the discussions, and the rationale for selection. Section 3 presents the sets of factors identified by branch personnel as influencing the introduction of Living Assurance into the marketplace. The analysis of these factors offers evidence of the kinds of attitudes and actions that can affect the introduction of a complex new PFS product into the market, and serves two purposes. Firstly, it adds richness and detail to some of the factors that the literature search identified as influencing the successful introduction of new products, by spelling out the particular ways they are seen to operate in an actual NPD situation within the PFS sector.

Secondly, it allows the implications that these findings have for subsequent developments of PFS products to be put forward. This second purpose is pursued in Section 4 of this chapter, in which a conceptual model is presented, that indicates the major factors that influence the two NPD activities illustrated in Figure 1. It also provides in conjunction with the results from Chapter 6, the basis of a set of guidelines that indicate the most significant areas PFS organisations should address when developing new products that are to be distributed through a direct sales force.

7.2 RATIONALE

After its initial success during 1987, sales of Living Assurance were found to be uneven across branches in Abbey Life. The spread of sales was such that in some branches less than 20 policies had been sold up to June 1988. In contrast one branch had sold in excess of 550 products in the same time period.

Table 7.1 illustrates this range:

TABLE 7.1

SPREAD OF LIVING ASSURANCE SALES ACROSS UK BRANCHES*

Number of Policies	Number of Branches
1 - 20	7
21 - 50	11
52 - 100	22
101 - 150	11
151 - 200	8
201 - 250	7
251 - 300	5
301 - 350	3
551 - 600	1

Total Number of Branches = 75

* From June 1987 to June 1988

The causes for this uneven pattern in number of policies sold were attributed in the case study to lack of marketing research, poor design of support literature, and changes in legislation. However, a further factor which is believed to significantly affect sales outcome is sales personnel influence, the degree of which is strongly associated with channels of distribution and product complexity. As chapter 3 has already revealed, much has been written about the need for greater personal contact between buyers and sellers in situations where the consumer may have difficulty in understanding the product, or in making a choice between competing products (Solomon 1986, Bettman and Park). During the 1980's the PFS sector has witnessed the introduction of a number of new products with increasing degrees of complexity, that require greater service input (for example Personal Pensions, Investment Plans, Personal Equity Plans, Dread Disease Insurance). The findings from the first stage of research indicated that, in many PFS organisations, the consumer was viewed as having a limited understanding of such products. It could be surmised therefore, that there is need for potential customers to be made aware of their latent requirements for these policies, a task which advertising alone cannot do. It was argued in chapter 3 that the most suitable method of distribution in such circumstances is one that is service dominated, focussing upon the creation of personal relationships with customers. The employment of a direct sales force meets this criteria, and is currently being undertaken by many PFS companies. In the banking sector, evidence of the growth in this direction can be seen in the moves of Black Horse Life and TSB, both of whom now employ a dedicated sales force who are provided with 'warm' leads from bank branches. A further example of such a move is the acquisition of Abbey Life by Lloyd's Bank, through the merger with Lloyd's Bowmaker, gaining access to Abbey Life's large direct sales network. As already noted, several banks and building societies have also formed tied relationships with life assurance companies, increasing the distribution network available to both parties. Growth in the numbers of sales personnel has also been witnessed within the life insurance sector:

TABLE 7.2

INCREASE IN NUMBER OF SALES PERSONNEL IN LIFE INSURANCE COMPANIES

Company	Number of Sales Personnel	
	End of 1987*	Mid 1989*
Legal & General	1500	2500
Britannic	3500	4500
Abbey Life	2700	3200
London & M'chstr	1020	2100
Royal Life	1000	1200
Sun Life	450	700

* estimated figures (adapted from P A Consultancy Report 1989)

The increases shown in Table 7.2, gives some indication of the emphasis that PFS companies are placing upon this medium as a method of distribution for some of their new and existing products. However, accompanying this growth are a number of issues associated with organisational control over new product outcomes, and accompanying sales personnel influence.

The issue of control over new product outcomes is related, in part, to the nature of the employment contract between sales staff and an organisation. For example, sales personnel who are 'employees' of a company involved in NPD, can be forced into accepting a new product by the final threat of dismissal. However, as Kimberley argues, even in situations of extreme coercion, employees at all levels of the hierarchy have the power to delay, obstruct, underutilise, or sabotage a new product if they decide that is the most appropriate response (Keen 1977, Kimberley 1981). For PFS organisations such as Abbey Life, which have a tied, self-employed sales force, the issue of control over new product outcomes is an important consideration in NPD.

The concept of a tied sales force implies that sales personnel are only allowed to sell the products of the organisation to which they are tied to. However tangible incentives (ie commission, holidays etc), cannot be used by a PFS company to persuade their sales force to adopt and sell new products.

Furthermore, FSA legislation disallows promotion of any one product to the detriment of others in a company's portfolio, as being contrary to the concept of giving best advice to customers about their financial requirements. Additionally, in this type of contractual situation, in which sales staff are self-employed, a company cannot force individuals to sell a particular new PFS product. The only direct control available is to supply personnel with some type of sales support, such as office space or administrative back up, which can then be withdrawn if individuals do not meet their overall targets. However, even then sales personnel have the final choice over whether or not to present a new product to a customer, a decision that an organisation cannot easily direct.

Management at Abbey Life's headquarters recognised this problem and talked of it in terms of their limited ability to control the sales outcome of new products. *It was realised that great reliance was placed upon the individual associate to present the new introduction to the consumer.* Head office's role was seen as one of trying to actively persuade such behaviour to take place, by providing branch managers with product training packs, launch material, and promotional literature. In addition, in-house magazines and bulletins were sent to branches, which included articles and information on product performance, from a corporate, branch and individual viewpoint.

However, it was also recognised that since the introduction of FSA legislation, they had not been able to provide any tangible form of reward for the sale of any one individual product as opposed to others in the range available. Without this form of incentive, it was seen as increasingly difficult to internally promote individual products. It was only possible to set overall branch sales targets, and not ones for individual products:

'We are limited in the means that are available to us to internally promote any new product.....we can only try to tacitly persuade the sales force to sell something like Living Assurance, we cannot force them to.'

'The only real control mechanism we have left is the minimum viability level (minimum sales target), if an associate does not comply with that then he maybe asked to leave. But it's up to the individual how he meets that target, we cant specify the product breakdown.'

A further issue that was considered as having further significance, was the perception that PFS organisations, such as Abbey Life have of their field staff. The survey indicated that they were classified by their 'employing' company as customers. Indeed, much of the promotional material produced by Abbey Life for the launch of Living Assurance focussed upon selling the new product to the sales force. Moreover, the limited control that a company has over decision making in the field, and the type of employment contract that many sales staff enjoy, indicates that the corporate view of sales personnel as part consumer to whom new products have to be actively sold to, has relevance. This being the case it seemed appropriate that the literature associated with consumer research was briefly referred to, in order to build the argument for selecting the conceptual framework found in this chapter.

Research into innovation processes in marketing per se, is well known and includes theories for the adoption of innovations and for their diffusion (Rodgers 1983, Assael 1981, Mahajan and Muller 1979, Robertson 1971, Rodgers and Schoemaker 1971). Work in this area has focussed upon causes of success and failure of innovations in the marketplace, such as consumers' reactions to new products, and the specific characteristics of potential adopters. For example, the adopter's place in the information transmittal chain, geographical mobility, cosmopolitanism, in addition to a number of economic and demographic variables (Dickerson and Houston 1983, and Ostlund 1979). Furthermore, an innovation in the form of a new product or new idea, is seen as having inherent attributes that may influence the adoption decision. A high degree of complexity and costliness of an innovation is viewed in the literature as a major deterrent to a quick adoption, although a number of other factors may also be at work. If the potential adopter has great confidence in the innovation and its originator; if there are great advantages expected; if the innovation can easily be tested and applied; if the involvement is not too long; if the innovation agrees with existing cultural norms and behaviour patterns; and if the consequences for present behaviour routines are minimal, the chances increase that there will be an adoption, (Taylor 1977). Such prior research appeared to the researcher to have especial application in the current study. That the sales personnel at Abbey Life were viewed as part consumers, over whose decisions there was limited control was confirmed in the case study.

Furthermore, that Living Assurance was an innovative product with an associated degree of risk attached to its adoption was clear, as is indicated in the uneven pattern of sales across the ten branches participating in this third stage of the study and in general:

Table 7.3

SALES OF LIVING ASSURANCE ACROSS PARTICIPANT BRANCHES

Branch	No. of Cases	% of Total
	June 87-June 88	Production
Birmingham	113	5
Bournemouth	117	5
Bristol	43	4
Coventry	16	4
Leeds	318	16
London Central	273	8
Manchester Central	264	8.5
Mayfair	155	13.5
Newbury	190	11
Norwich	62	8

Source: Abbey Life Sales Records June 1987-June 1988.

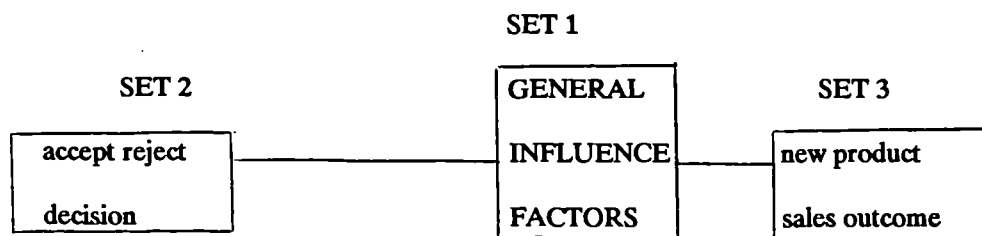
From the sales records of the selected branches, it was clear that some members of staff had not contributed to sales of Living Assurance. Although individual records of sales performance were not available, it appeared from the discussions and by indications given by branch managers, that small pockets of personnel who had been quite successful in selling the product co-existed alongside larger groups who had not had the same level of success. In general terms, the failure to sell a new product, could be attributed to a customer's decision not to purchase after having been presented with it by sales personnel.

Alternatively, the reason for lack of success may be due to an individual's decision not to show a certain product to the consumer, (eg complying with best advice rules (1)), or more drastically the decision to exclude it from the product portfolio altogether.

It was clear that these types of decisions associated with adoption or rejection of a new product were important factors in influencing the market outcome of Living Assurance, and were therefore selected to provide the conceptual framework guiding the subsequent content analysis of the transcripts of discussions and interviews:

FIGURE 7.1

FACTORS INFLUENCING THE SUCCESS/FAILURE OF NEW PERSONAL FINANCIAL
SERVICE PRODUCTS



The major influence factors in Figure 7.1 were identified as those which had a prior impact on sales associates' ability to exercise influence in general. Set 1 therefore included customer perceptions, sales associate experience and characteristics, and personal selling strategy. The second set of factors were those which were seen as influencing the decision to adopt or reject a new product.

The third and final set was associated with those factors that were viewed as affecting the sales outcome of a new product if the decision to accept is taken.

FIGURE 7.2

INFLUENCE FACTORS**SET 1: GENERAL INFLUENCE FACTORS****Factor 1 - Customer Perceptions****Factor 2 - Personal Selling Strategy****Factor 3 - Sales Associate Characteristics****Factor 4 - Sales Associate Experience****SET 2: ADOPT REJECT INFLUENCE FACTORS****Factor 1 - a new product and its attributes****Factor 3 - communication strategies****Factor 4 - advantages/disadvantages accruing from sales****Factor 5 - organisational control****Factor 6 - resistance to change****SET 3: PRODUCT OUTCOME INFLUENCE FACTORS****Factor 1 - customer segments****Factor 2 - price**

The factors illustrated in each set in Figure 7.2, were highlighted by the content analysis of the qualitative data as being of some import to the study, but should not be viewed as the sole influencers of the adopt/reject decision, or new product outcome. Although their selection was grounded in the types of experiences and attitudes of sales personnel towards Living Assurance, and the regularity of their occurrence, they should not be viewed as wholly representative of the total number of sales associates or branch managers across the aggregate number of branches in Abbey Life, as respondents only represented 5 per cent of the first group, and 10 per cent of the latter group (5).

Nevertheless, results do reflect the opinions of sales personnel across those branches visited towards the general subject of influence in the NPD process, and as such are a timely addition to the limited knowledge of the existence of these factors in the PFS sector.

Each set of factors is discussed in more detail in the following section, and includes a variety of comments that are a broad representation of the views commonly held by participants in the study.

7.3 SET 1 FACTORS: GENERAL INFLUENCE FACTORS

7.3 (I) - Set 1 Factor 1: Customer perception

In general terms, the majority of respondents (88%) saw themselves as the public face of the organisation in its transactions with the end consumer. The external representation function was seen as important to the organisation's reputation, as the general public were believed to make inferences about Abbey Life as a company, from their experiences of the behaviour, characteristics and appearance of the individual sales associate.

'The industry has had a poor reputation in the past, we have been saddled with this image of the salesman trying to get his foot in the door. To get over this we have to conduct ourselves in a professional manner'.

'It is very important that we dress and behave professionally, after all we are the first, and in some cases, only, point of contact with the customer'.

However it was thought that although it was important to portray this professional image to the consumer it was more for the individual sales associate's benefit, rather than the company's. This was associated with the perceived limited ability of consumers to differentiate between life companies in general:

'It is more a case of trying to create a rapport with the client, so that you can have an ongoing relationship with them ----- they are not knowingly buying an Abbey Life product, they cant tell one life company from another, what their buying is my advice'.

'The customer is not interested in what company you represent they are more interested in what the products you are selling will do for them'.

This lack of differentiation on the part of the consumer was thought to be due to a general lack of interest in, and understanding of the subject of life assurance in general:

'The average person is not interested in life insurance, and they certainly dont understand the technicalities of it'

'Insurance is sold and not bought ---- that is an old but true saying, and is based on the public's dismissal of their need for protection.'

These perceptions indicate that the established consensus (75%) amongst those interviewed was that their role was one of advising, recommending and above all influencing customers to buy both new and existing Abbey Life products in preference to those of its competitors.

7.3 (ii) - Set 1 Factor 2: Sales Associate Experience

Underlying these responses however, the ability to influence customer decisions appeared to be strongly associated with length of service. The longer the period of time that an individual associate had spent with the company, the greater the amount of selling experience they had acquired. All the associates that were interviewed in the field had different levels of experience ranging from 3 months to 15 years. Exposure to different selling situations and different products provided associates with the knowledge of what they were good at or comfortable with, and it was common practice for some staff,

in all the branches visited, to start specialising in a particular product area (eg pensions, or investments), after a period of approximately three years.

This specialism stretched to include specific market segments (eg key man segment in the corporate sector, self-employed company directors, female managers etc). However, positive or negative feedback in the tangible form of a sale, appeared to affect the quality of an associate's experience, in terms of the perception they held of their own ability to control and influence the buying decision. Repeated positive feedback, appeared to lead to a greater amount of confidence in the knowledge that the individual could control the sales situation and strongly influence outcome. This scenario was not, however, a regular occurrence. During the course of the discussions and interviews, approximately 19 per cent of associates were identified as having had this type of experience over long time periods (in excess of two years). For each of these individuals, it was apparent in their inter-personal behaviour and comments during discussions that they held a deep belief in their own ability to influence the end consumer.

The majority of respondents, received a mixture of negative and positive feedback from customers. This was partly due to limited experience in the life insurance sector in some cases (15%). Although these respondents appeared to be quite confident and were achieving some good results, they felt they were still 'learning the ropes', and appeared to be unsure of their role as adviser and influencer. For other more experienced associates (27%), there was a tendency to stick with products that they were relatively successful for them, and they tended to devote a lot of their effort to presenting them to prospective clients.

They saw themselves as specialists rather than generalists, and did not stray outside their product areas. Other associates (29%) in this category were more keen on establishing and maintaining a client base, for whom they could service their financial needs on a regular basis, and who could provide personal recommendations of their service to their friends cutting out the need to prospect. These individuals were aware of their ability to influence, but were lacking in motivation to use this power to its fullest potential. The remaining associates were those who had mainly negative feedback from presentations, and which therefore led to poor sales performance and lowering of self esteem. This appeared to be a small group (10%) of respondents, and it was difficult to obtain very much verbal information about

this type of situation in the branches, as associates were obviously unwilling to talk about such failures at length. For the associate who did not achieve minimum targets that are set by the branch manager, the ultimate reprisal was withdrawal of office space and administrative support, in effect their contract with the company coming to an end.

(iii) - Set 1 Factor 3: Sales Associate Characteristics

Personal characteristics such as age, gender, race, personality type, and social class were viewed by respondents as relevant factors, in terms of influencing the types of customers approached (ie ones with similar socio-demographic profiles). There was general agreement (77%) that it was easier to sell a policy to a customer with whom there was some similarity in lifestyle or personal characteristics. It allowed for greater rapport to be created between the two parties, and introduced an element of commonality that could be played upon in presentation.

'I always try to sell to people of my own age group as I can talk about general areas that will be of interest to us both and create a friendly atmosphere before I make my presentation. Its all about getting them on your side'.

'Being a single woman of uncertain years, I am more able appreciate the problems that face women as they get older, and can provide a much better service because of that understanding. I therefore tend to stick to this segment of the market.'

A further example of this type of influence factor was that of an associate interviewed at the Birmingham branch, who had met with outstanding success since being with Abbey Life. He had devoted his attention to selling Living Assurance to Indian businessmen with whom he had a great deal of prior contact with and who had similar race, age and gender characteristics to his own.

A small number of respondents (21%) in the 20-25 age group, were experiencing difficulty in selling Abbey Life products to similar aged consumers, who they said weren't interested in buying life

assurance policies in any form. In addition, they were experiencing problems of credibility with older age groups, who they found more difficult to approach. This was particularly related to lack of experience which is discussed in the next section.

7.3 (iv) - Set 1 Factor 4: Personal Selling Strategy

General influence over customer purchase decisions was also seen by respondents to be associated with a well-defined personal selling strategy that had been put together by the individual associate, in order to target new and existing customers. It was apparent that the sales associates (19%) who were indicated by branch managers to be the most successful performers did not use the standard props provided by Abbey Life, such as the fact-find form, but had worked out a method of presentation that could be tailored to fit different situations. At the same time, it strongly featured all the benefits that they felt a customer could attain by purchasing a particular product. Such associates appeared to change their methods of presentation and approach to suit the product that they were concentrating on. This attitude towards personal selling was highly idiosyncratic, very informal, outside of the standard methods of operating, and limited to only a small number of individuals (19%) who were confident enough to use such an approach. For the majority of sales associates (61%) the tried and tested formula was used, built around the fact find questionnaire. This form allowed a number of questions to be asked about such things as the customer's lifestyle, family, ownership of existing PFS products, which then highlighted the areas in which he/she had a need for one of Abbey Life's products. However, many respondents stated that it was too general in content, and in particular, did not include any questions that allowed Living Assurance to be introduced to a prospective client, and therefore it was found to be too difficult to bring the product into the normal method of presentation.

7.4 SET 2 FACTORS: THE DECISION TO ADOPT OR REJECT A NEW PRODUCT

7.4 (i) - Set 2 Factor 2: A New Product and its Attributes

Respondents were asked about their general views of Living Assurance, in terms of what it represented to them, and which market segments it was aimed at. There was general agreement across all branches visited that the concept of Living Assurance was unique and was described in terms of a luxury product, for example:

- a rolls royce
- comprehensive vs third party

Living Assurance was also seen to be markedly different from any of the other products that Abbey Life sold, in addition to not having any competing products of a similar nature in the marketplace. Although from head office's viewpoint this gave the company a unique selling point and a competitive start in a new market area, the new product was also seen as difficult to understand by a number of associates, mitigating against any advantages that product uniqueness might bring. Indeed the complexity of Living Assurance was given as a major reason (74 per cent of sales associates) for its limited adoption by sales associates and managers in the field:

'If we dont understand the product, how on earth are we supposed to sell it with confidence the consumer'

Some new products that had been launched within Abbey life in the past, had been readily understood by the members of the organisation. From this basis of ease of understanding, it appeared that a new product was quickly adopted and introduced into the marketplace by sales personnel. However this factor was not solely related to the simplicity of a new product's attributes, but appeared to be associated with the similarity to existing products in the corporate portfolio. For example, Cover Master (2), which had been launched by the company in the early 1980's, was quickly accepted by sales personnel as a product that was basically very similar to other life products in the company range, albeit that it was based on a different investment principle, that in itself was new and complex, (ie the unit-

linked principle (3)). This ready acceptance stemmed from the notion that it would not be too difficult to get the customer to understand the product offering and its benefits.

In order to ascertain how Living Assurance was perceived by the associate and which market it was competing in, respondents were asked to define the product. It was viewed by the many associates (71%) as a form of life-protection. As such it was felt to be competing with Cover Master, and other life policies that a client may already hold:

‘We were told to target it at the single market and sell it as a top-up to Cover Master.’

‘Comparisons are made between Living Assurance and other life products--it is competing with them. The customer may want heart attack and cancer cover but not the death benefit as they already have this type of policy, and it is therefore a duplication, as we are trying to sell the customer more life cover.’

‘Living Assurance is a life protection product with an added rider of dread disease cover for those who can afford it.’

Although many respondents saw it as a life product, and competing with Cover Master, some (26%) defined it as a form of health insurance:

‘It is really competing against other permanent health insurance policies - this is because the message behind Living Assurance is that if you contract a dread disease then the company will pay out and therefore it is connected to health.’

In a very small minority of cases (3%) it was also classed as an investment product, based on the fact that if a claim had not been made in the first 10 years of the policies life, policyholders had the option to cash in their policies which had been linked in part to a unit trust of their choice, providing a source of investment for part of the premium paid.

Further confusion was associated with whether Living Assurance was a stand-alone product in its own right or an add-on benefit to Cover Master, Abbey Life's existing life assurance product. The problem stemmed from the fact that Living Assurance was launched as a life/health hybrid, being built around Cover Master. Living Assurance provided protection against contraction of a dread disease, and Cover Master provided unit linked life cover. As such they were two separate policies, for which two separate forms were filled out and two management charges made. However, they had been packaged in such a way so as to provide the consumer with a lump sum on death or diagnosis of a specified illness. Sales could therefore emanate from one of three options; top-up of existing Cover Master policies, Living Assurance policy alone, or a combination of the two products. The final package also had an element of permanent health insurance included, as it paid out on permanent disability which was a feature of PHI contracts.

7.4 (ii) - Set 2 Factor 2: Communication

The confusion that existed over product type and market appeared to be very much related to how the product was launched to the sales force in branches, which varied from region to region. The launch procedures across departments and branches were co-ordinated by headquarters with the aim of achieving a common approach, with all branches and staff treated in a similar fashion. However, there appeared to be a lot of dissent about how the launch of new products in branch was a rather erratic affair, causing some resentment. The existing approach to communicating new product launch information, was to disseminate it via the branch manager to sales associates in-branch. The locus of control of this communication shifting therefore from head office to branch management. In fact, this was seen to be a root cause of failure of Living Assurance and other new products in some areas in the field, because as it was pointed out if a particular branch manager did not like a new product for some reason, this effected his attitude towards it, and consequently the motivation and enthusiasm that he put into the product launch within the branch.

A major criteria for the company at the product's launch was to gain maximum publicity, which was achieved by inviting the relevant media and branch managers, and introducing research that had been carried out, which was promoted as being controversial because it was investigating the subject of dying and associated financial needs. The downside of this rather blatant attempt at gaining as much media coverage as possible, was that a large majority of the managers (80%) interviewed were cynical about the way in which the product was presented to them:

'Why on earth do we have to be subjected to such a razzamatazz style of presentation, when the product is of such a serious nature.'

'We are trying to act in a professional manner, but we get treated as if we are double glazing salesmen. This type of approach is not one that appeals to managers today, we are busy people running large branches, and this was a waste of my time, it didn't tell me anything about the product itself it was just a bit of showbiz.'

Further resentment was associated with the fact that managers who were closely involved in the day-to-day operations of their branches, were not asked to contribute to developing more appropriate messages for in-house launch across the branch network. A standard script was provided to branch management by the public relations department at headquarters, to guide their presentation and point to the areas that needed to be included. However it was felt quite strongly that different branches and regions had differing characteristics, in the form of the major customer segments and the sales associates employed. For example, the Mayfair branch was classified by the company as a Chairman's Club branch ie sales personnel were invited to join the branch on the basis of being high achievers at other branches of Abbey Life or in other organisations. Customers came from high income occupational categories such as managing directors of medium to large organisations. In contrast, in other branches, such as Coventry, associates serviced a more general type of clientele from C2 D/E categories, with lower income occupations.

It was suggested by several managers (50%) that what was required was a number of regional launches before or after the national launch took place, whereby the public relations information could be

tailored and targeted to the specific associate characteristics and customer segment attributes of individual branches. However, although this was a practical suggestion, this may have presented even further problems for Abbey Life, in that it would be very difficult to manage to convey a universal image of a new product. The real issue was that the provision of script and sales and marketing packs did not guarantee any form of uniformity of new product launches in branch. The existing launch procedure was outside of the control of head office and was as such a subjective exercise dependent upon the manager's earlier reaction to the new product:

'I have worked in a number of branches and the difference in approach and management style in each one is quite clear to see. Some managers will really be involved and push new products, whereas others leave it to their assistant managers to launch.'

'We have been actively encouraged to push Living Assurance in all presentations right from the word go.....we had a champagne launch for it, all funded by the manager.'

'Our branch manager doesn't take much interest in what you sell as long as you meet your target that's all he cares about.'

The way a new product was launched also appeared to create a feeling of 'them versus us' for a number of associates (29%), widening the psychological distance between head office staff and branch personnel:

'Head office is only concerned with gaining as much publicity as possible from the national launch of Living Assurance, they weren't bothered about inviting the people who have to sell the product.'

'We are the ones who have to go out and sell products but we get forgotten about and treated as second class citizens.'

'What we want is for all staff to be treated in a similar fashion - what is happening now is divisive and we resent not being involved in the national launch.'

7.4 (iii) - Set 2 Factor 3: Advantages/Disadvantages Associated with Selling New Products

A major issue discussed by participants was that of the degree of effort required to close a sale, versus monetary gain, (eg commission from sale), for new and existing products in Abbey Life's range. Some products in the company's portfolio were viewed as being far easier to sell than others. In some cases (70.6%) this was thought to be due to external influences, such as favourable legislation and media coverage. For example, some new products were seen by associates as 'flavour of the month':

'The present taxation rules mean that there are a number of benefits that you can sell to the customer when presenting personal pension plans, this gives me an added advantage which I will use to push pensions rather than other policies.'

'The customer is being bombarded with information about pensions in the media....we have to cash in on that, it maybe to the detriment of other products but that's the nature of this business.'

It appeared that certain new products that enjoyed favourable taxation advantages, such as personal equity plans, share ownership plans and personal pensions, took precedence over others in the product portfolio. For example, Living Assurance had been launched in the summer of 1986. The following spring saw the introduction of tax advantages in the 1987 budget for personal pensions and a subsequent flood of new pension products were rushed onto the market. As indicated, many associates at Abbey Life concentrated on selling this type of product, which meant that this limited the attention paid to any other new products such as Living Assurance that were introduced at this time.

A most important criteria for sales associates across all branches was that they achieved a high policy turnover. Although the sale of Living Assurance presented an opportunity to increase earnings because of the higher premium attached to each policy which in turn increased commission, the product was generally viewed as difficult to sell (68%), requiring a lot of time and effort on the part of the sales associate. As sales targets did not take into account how much time and effort was required to sell different products, this form of control appeared to militate against the sale of certain complex new

products such as Living Assurance, encouraging associates to concentrate upon what they found easier to sell:

'It doesn't matter what we sell as long as we hit target each month.'

'The profit motive is the major motivator as long as you are producing there are no controls over what products you sell.'

The general consensus then shared by associates (68%), was that a complex new product such as Living Assurance, was very different from the types of products they had been used to selling. It required far greater effort to present and successfully close the sale, and whilst a small number had risen to the challenge that this presented, many respondents did not think that this increase was worthwhile.

The advantages attached to selling new products were seen mainly in terms of increased earnings and associated prestige. Indeed, it appeared that the greater the number of new products sold, the higher status of that individual salesperson in the branch hierarchy. For example, the most successful sales associates of different product types were cited as role models by some of the other members of staff in the branches visited. The stories of their success took on a 'folk-lore' quality, and were reported in the in-house magazine. Some branches ran sales associate of the month awards, and top performers were invited to join what was termed within the company as Chairman's Club branches.

7.4 (iv) - Set 2 Factor 4: Resistance to Change

Resistance to change was a further influence over the decision of whether or not to adopt a new product, and was manifest in several ways. For example, several associates (29%), who had been with the company for long periods of time (over 5 years), stated that they were perfectly happy selling existing products in the company's range:

'I have an established presentation method that has served me well, and I don't want to change it to include this new product that will be difficult to explain to the customer.'

Such responses were typical of associates with a number of years experience with Abbey Life, who were aware of the influence they had over consumers' purchase decisions. However, the depth and breadth of their experience had made them resist change to their existing practices, as they were attached to selling existing products to their existing client bank:

'A number of my clients have been with me for several years, I update their financial needs on a regular basis which is more to do with increasing existing premiums rather than selling them new products.'

Resistance to change was also apparent in the need to deviate from existing styles of presentation, when selling a new product which related to the extra effort required. Many associates (62%) stated that this was a reason for not adopting new products in general:

'It is too much effort to go through the trial and error process of finding out what works in different situations, when we already have a good portfolio of products to sell and a tried and tested way of presenting them'.

'If I can sell 8 Cover Masters to 2 Living Assurance policies, which product am I going to concentrate on?'

'All intermediaries have a selling pattern, and develop a style over a number of years selling products that they know from experience what will get a good hit rate. When a new product is introduced you have to work a lot harder at developing a new presentation.'

'When you first present a new product you are in a sense carrying out some form of product testing, you stumble through your presentation because you don't know the product and are only learning about it yourself. If you already have a good portfolio of products it may not seem worth the effort.'

If it appeared therefore from early experiences during presentations that a new product was going to be difficult to sell, then there was a strong likelihood that it would not be emphasised to a prospective customer.

7.5 DISCUSSION

Living Assurance was viewed by many respondents as difficult to comprehend and sell, representing a significant shift in existing work practices and also appeared difficult to sell. An informal decision was therefore taken by a small number of associates (12 / 18%), not to include it in their product portfolios. The remaining respondents fitted into two categories:

- partial adopters: 60 per cent of associates (41) indicated that they had decided to present Living Assurance where and when it was apparent it matched clients needs
- full adopters: the remaining 22 per cent of respondents (15) had actively pushed Living Assurance and either concentrated their selling efforts on Living Assurance to the exclusion of other products, or alternatively tried to include it in each presentation made.

The next set of factors are those that influenced the final outcome of Living Assurance, once the decision to adopt or reject had been taken. As such it relates to partial and full adopters ie 82 per cent of the original total sample, giving a revised population of 56 associates. The remaining 18 per cent (12) of respondents who had decided to reject the new product, are therefore not included in any of the following results.

7.6 SET 3 FACTORS: PRODUCT OUTCOME INFLUENCERS

7.6 (I) - Set 3 Factor 1: Customer Segments

The age profile of prospective customers was seen as have a significant influence upon the purchase of Living Assurance, for many associates (70%) this was viewed as a limiting factor, militating against product sales:

‘You could say that it is a product for all ages except that it is more appealing to younger age groups in terms of a more favourable premium’

‘The general public it appears to be aimed at is the single professional person who thinks about dread diseases and collecting the cash on possible contraction rather than death benefit.’

‘It is a good product but those who can afford are much older and dont feel the need for it as they have all the basic products and capital set aside.’

‘When an individual might be interested and aware of the need for the product the premium will be high because he or she will generally be older and more able to appreciate the problems associated with dread diseases. The under 30’s aren’t bothered... they think they are immortal.’

Some respondents (66%), recognising this problem of cost in the personal sector, saw the professional and corporate segments as target markets:

‘There maybe a market to sell Living Assurance as a key-man policy in the corporate sector.’

‘It has appeal for the self-employed as it relieves the pressure of having to return to work before they have properly recovered.’

'Possible market segments are hospitals and medical practices, individuals working within these settings can more easily identify with Living Assurance and appreciate its benefits. They see the stress factor that a heart attack can bring, for example the way people may worry about how they are going to recover from such an illness financially.'

'In certain professions there is a definite need for Living Assurance - I am targeting individuals with larger budgets who also understand the need for it, rather than general coverage.'

'I tend to deal with self-employed people especially in the nursing home sector - not only are they confronted with dread disease illnesses on a regular basis but they also have to think very hard about providing their own cover against such eventualities.'

'Senior executives and those earning high salaries are the most important targets - these individuals are prone to suffer from dread diseases and are more aware of their existence.'

The product did appear to have appeal for certain segments of the market. However the groups of customers that associates identified as having the most need for Living Assurance, were not the segments that Abbey Life had originally recommended that personnel should target, ie general and single/divorced with no dependents. Furthermore professional and corporate segments tended to be ones in which individual associates specialised once they had been with the company for some time and had built up a number of contacts in these areas. As such they were not representative of the general profile of Abbey Life customers who were situated at the middle to lower end (C1 C2 D) of the domestic market.

7.6 (ii) - Set 3 Factor 2: Price

The price of Living Assurance was highly related to the age and health profile of a prospective policy holder, increasing as the risk of contracting a dread disease type illness increased. In comparison with the average protection policy designed to protect against the risk of death, the cost of cover for the new product was far greater. For example, at June 1987 a non-smoking male aged 30 would pay 15.44 pounds a month for 20,000 pounds of Living Assurance cover. The top limit of 100,000 pounds would cost the same 30 year old non-smoker 72.00 pounds a month. Extra charges were incurred if the policy holder was a smoker and rates rose considerably as the age of the person increased. Full cover for a 50 year old non-smoking male would cost 240.90 pounds a month. These premiums were on average, 80 per cent higher than those of a normal life assurance policy.

Using this example as a guideline for discussion of price across branches, whilst the policy was seen by the majority of associates (82%) as affordable for young people below the age of 30, it was pointed out that the main concerns of this age group was mortgage provision. Furthermore, it was generally held that individuals under 30 were unable to identify with the concept of cover for a dread disease, and were not concerned about issues relating to their own mortality.

Older age groups were seen as being far more able to identify with the need for Living Assurance, however 64 per cent of respondents felt that although this segment were far able to appreciate the need for the product they were less able to afford the premiums that went with it. It was also indicated (27%) that even where older age groups were financially secure they were either already well provided for in terms of health and life cover, and capital laid aside in case of anything untoward happening.

A further major variable related to an individual's ability to afford Living Assurance, or indeed any PFS product, was their total income and other outgoings. It was said (70%) that many existing customers were unable to afford the product:

'The cost is the reason why people don't buy Living Assurance. They already have a mortgage, life assurance, pensions, and they cannot afford to buy any more financial products.'

‘Income is the most important customer variable, if a client can afford a product and it fulfils a need he will buy.’

‘The size of the average wage in this area has to be considered - what is most important to the average family is protection in the case of death of the major wage earner. Once a person has a mortgage, they then tend to require life insurance and then a pension, they would only get round to looking at Living Assurance if they had any spare cash.’

‘As soon as interest rates rise products like Living Assurance are relegated to the scrap heap. People have to think about providing for immediate needs and also only keep on those policies that are essential or legally required. We are very much affected by these types of fluctuations in the economy and we are also competing with other ways in which the consumer spends his income, for example a new car, washing machine, or a foreign holiday.’

‘The associates in this branch have been trained to go after multiple sales rather than specialise, that is working with a target market that will provide leads for a particular product type. Our target is mainly the average domestic home and we have to be able to offer a full portfolio of products to the client that he can afford. The problem with Living Assurance is that we are dealing with Mr and Mrs Average and it is something that they might like to have but their budget will not allow them to purchase it. Priorities are for products such as mortgages, life assurance and pensions.’

‘My clients have limited disposable income and are unable to afford expensive products like Living Assurance, I am in the business of providing protection at the least possible cost.’

The pricing structure was viewed then, for a variety of reasons, as a limiting factor to making a successful presentation of the product to both new and existing clients. Generally, associates revealed (73%) that they were more concerned with being able to generate sales irregardless of type, as this was what their performance was judged on:

'Price is a major factor....we have to be seen to be selling products by the company, and if we introduce a policy to a client that is far too expensive, then we have no chance of making a sale -- even if the product meets their needs, the customer has to be able to afford it.'

However, attitudes towards the effect of price on successful closure were significantly different, for those who were actively promoting as much as possible in presentations (27%):

'You have to believe that a person can afford a product -- you must suggest the highest possible quote and then work around it.'

Moreover, several associates used price as a marketing aid to sell Living Assurance to both young and older age groups. In the former segment the message presented was one of gaining significant reductions in price because of their age. For older clients, emphasis was placed on the fact that the product was prestigious and met real needs that did not just disappear, explaining why Living Assurance was expensive, but at the same time emphasising its inherent worth.

7.7 DISCUSSION

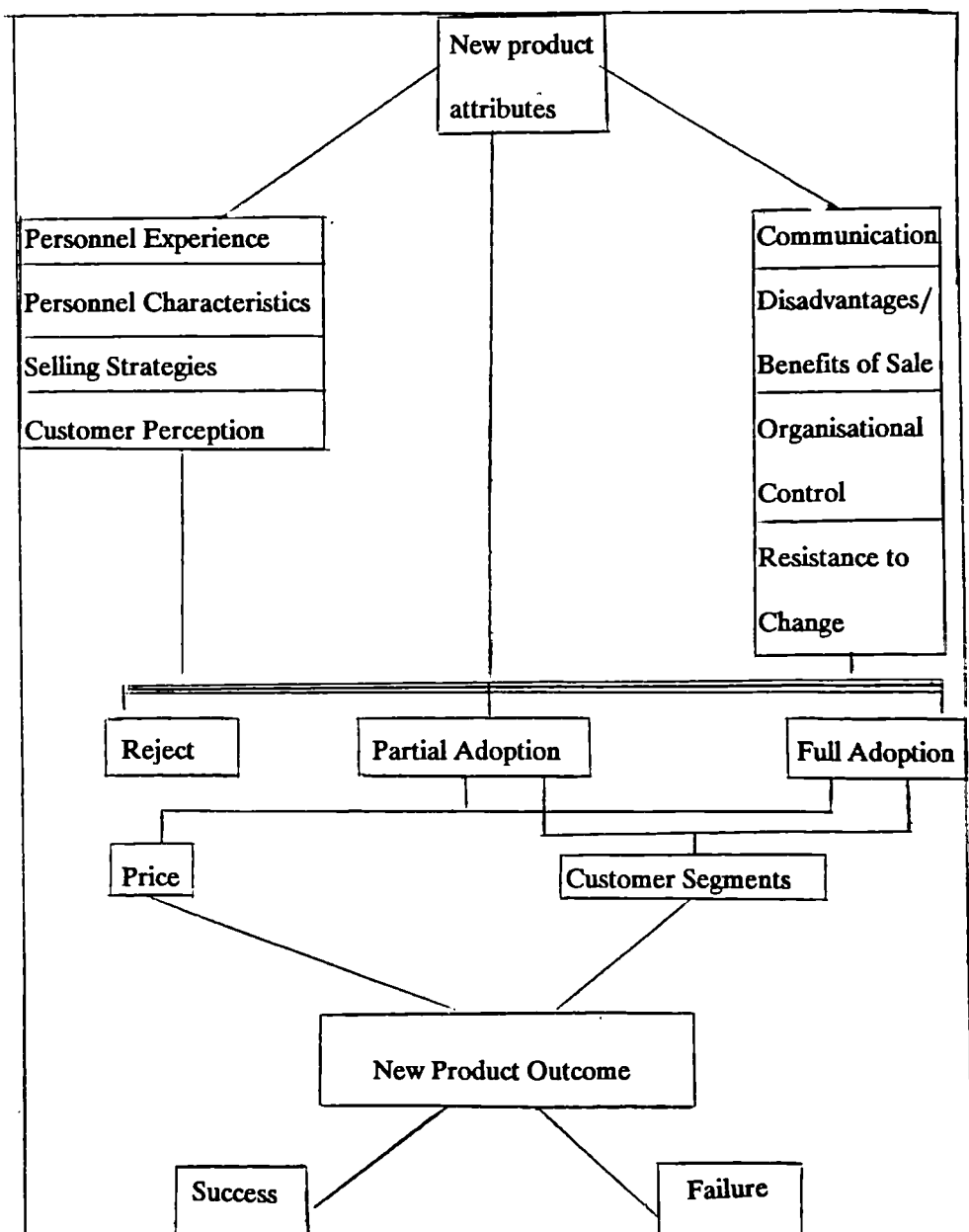
The age and income of consumers in the general market severely affected the ability to sell Living Assurance, even when the decision to adopt had been taken by respondents. This however, was also related in part to their own prior perception of what could or could not be afforded, and it appeared that there was a tendency to be more negative about these factors in cases where sales of Living Assurance had not been particularly good. Nevertheless, it was clear that a large gap existed between those segments of the market that Abbey Life had recommended to be targeted, and those that the associates and managers perceived to provide opportunities for sale. This was largely associated with price; the corporate and professional segments were viewed as being more able to offset costs of premiums than the lower income groups who had smaller amounts of income at their disposal, as well as competing claims on it. In both cases greater use of marketing research aimed at soliciting consumer and associate views in more depth, during the development of Living Assurance may have proved beneficial in increasing the total amount of sales achieved across the company in its first year.

7.8 CONCLUSION

This chapter has highlighted the factors that can influence the decision to adopt or reject a complex, new PFS product, such as Living Assurance, in an organisation that relies heavily upon a direct sales force to distribute its products to the customer. Three types of decisions were found to be taken by sales staff, after Living Assurance had been launched in branch:

Figure 7.3

THE ADOPT/REJECT DECISION: INFLUENCES AND OUTCOMES



As Figure 7.3 illustrates the decision to reject, partially or fully adopt Living Assurance were influenced by a number of sets of factors. Firstly, the characteristics and experience of sales associates, in addition to their personal selling styles and perceptions of the customer, were shown to influence their views of new products in general. In order to maximise the probability of the acceptance decision, better information is needed about the product dimensions most important to sales personnel, and the set of decision rules associated with the adoption and rejection of new products. Indeed, the restrictions placed upon control of direct sales channels, makes it even more important for PFS organisations, such as Abbey Life, to have an intimate knowledge of sales force behaviour, attitudes and experience.

Secondly, it was also very apparent that more emphasis needed to be placed upon the method by which new products were communicated and launched to the field. Resistance to change, and the perceived advantages and disadvantages associated with selling a new product, were found to be underlying factors that influenced the initial adoption/rejection decision. Greater provision of information about the new product, highlighting the benefits of adoption, and the need for change, could have gone some way in changing the initial perceptions of Living Assurance.

More specifically, given the lack of control over decision making in the field, greater consideration of how sales personnel in general can become more involved in the launch of new products is recommended. Not only are there positive gains to be had from inclusion (for example, narrowing the psychological distance between the head office and the field, and the feeling of them versus us), but it could allow for greater monitoring and control over launch procedures, lessening the variability across branches, that the associates perceived to exist. For example, holding regional launches, where all associates are invited to attend, might be found to be more productive in generating acceptance of new products, rather than the more divisive method of internal promotion of new products that was in existence at the time of the study. Communication strategies and their implementation were therefore, found to be particularly important to new product success in the study. Indeed, in organisations with a similar dependency on direct sales channels for the eventual success or failure of its products, a critical factor is this need to encourage positive reactions at an early stage of a product's lifecycle.

The requirement for more information about the attitudes, behaviour and experiences of sales personnel, in addition to the need for tailored communication strategies, indicates that there is an underlying necessity for PFS companies such as Abbey Life to conduct in-depth marketing research which investigate the factors that influence new product acceptance decisions. Furthermore, the case of Living Assurance has shown that price and customer segmentation were seen by associates as influencing the product's eventual market outcome. Limited research was undertaken at a late stage of development which highlighted this concern over price, (which was subsequently ignored). However more detailed research could have revealed this factor earlier on in the product's development. It is not suggested that the pricing structure could have been easily changed, but an earlier warning that Living Assurance might be too expensive for the pre-selected markets would have allowed for more accurate targeting.

The case study and subsequent content analysis of discussion groups and interviews in the field, have indicated that marketing research is a pre-requisite for organisations who are involved in developing new products that are to be distributed through the means of a direct sales force. Although the depth of research required is itself contingent upon the type of development undertaken (ie newness and complexity of product and market), and the ability of a company to undertake it (ie the marketing research infrastructure in place, and industry characteristics), this does not mask the essential nature of its application in NPD per se. Indeed, where direct sales forces are employed to deliver new products to the consumer, the implementation of such a strategic tool can provide an organisation with a better understanding of the behavioural and organisational factors that can affect new product acceptance and, by implication the factors affecting success or failure in the market.

The next chapter concludes the current study by reviewing the objectives of the research and the manner in which they have been met. A set of practical guidelines are also provided (Appendix 1) in the form of a series of questions that PFS organisations should be aware of when developing new products. Finally, it outlines the contribution to the literature associated with NPD that the research has made, and indicates the areas in which further work should be undertaken.

Footnotes

- (1) - Best advice is associated with the provision of information about, and recommendations for financial products that match the individual client's needs, and are in their best interests.
- (2) - Cover Master is a unit linked whole of life product.
- (3) - The principle of unit linking refers to combining a standard insurance policy with a unit trust plan which basically invests part of the premiums in a number of different types of investments, eg property, stocks and shares, industry.
- (4) - These percentages are based upon the average number of associates employed at the time the discussion groups were undertaken: 1500 associates and 75 branch managers. However this figure fluctuated constantly due to the high turnover of staff in the company and industry in general.

CHAPTER 8

CONCLUSION

8.1 INTRODUCTION

The research was undertaken with the initial aim of determining the types of approaches to NPD taken by individual organisations within the PFS sector. It was seen as an area of industry that had been much neglected in previous studies of NPD practices, therefore requiring further examination of the applicability of recommended theoretical approaches to NPD, with their emphasis on planning and marketing research. The preliminary investigation that was undertaken was essentially broad based, concentrating on capturing an overall picture of general NPD activity within the PFS sector. However, a more detailed study of the development, launch and distribution of a specific new PFS product was also conducted, which enabled the exploration of some of the more salient behavioural and organisational factors that influenced the market outcome of new products.

The conclusions of the research which are presented in this chapter, are therefore composed of two main elements which mirror these two strands of research:

- i) the direct significance for PFS organisations of the results of the survey examining planned NPD practices
- ii) the implications which the case study and discussion group findings have for the development, launch and distribution of new products, both within the PFS sector and other industries.

8.2 - THE SIGNIFICANCE OF THE SURVEY FINDINGS

A key outcome of the first stage of the research has been to highlight the gap between theory and practice in the area of new product development. Although a great deal of development activity was taking place within the PFS sector, it was being pursued in an ad-hoc fashion as opposed to the procedural approach recommended in the literature. Furthermore, marketing research, viewed in the literature as a key support tool and pre-requisite for success in the marketplace, was only being implemented in a limited and impromptu manner. There were several reasons for this restricted usage, which were directly related to the inherent characteristics of the PFS sector, the size of organisations, availability of resources and the overall perceptions of the relevance of research.

On the basis of these findings a recommendation for a more contingent approach to new product development and the use of marketing research has been suggested that recognises:

- (a) the differing types of product/market developments that are being pursued by individual firms
- (b) allows for greater or lesser use of marketing research

Figure 5.1 (p) illustrated how such needs can be incorporated into a more contingent model of new product development. The model is mainly intuitive, although it is partially based upon the results of the postal survey. It should not be viewed as surpassing existing NPD models found in the literature, but rather as a supplement to them. Indeed, as the research has indicated, the complexities of the PFS environment and the variety of companies that compete within it ensure that any model, technique or approach cannot be followed in a universal fashion.

Taking a more contingent approach, therefore, allows for the adoption of common standards provided by the existing models of the NPD process, whilst at the same time adapting them to an organisation's own individual circumstances.

8.3 - THE IMPLICATIONS FOR THE DEVELOPMENT, LAUNCH AND DISTRIBUTION OF NEW PRODUCTS

The second and third stages of the research were undertaken with the objective of highlighting the organisational and behavioural factors that influenced the market outcome of a particular new product, namely Living Assurance, developed and launched by Abbey Life in 1987. Although on the surface the choice of a life insurance company for further study did not appear to allow for any replication of results, it was argued that the medium used by life insurance companies to distribute new PFS products, was not only one that was set to grow, but also had wider implications for development programmes per se.

The study of the development and launch of Living Assurance revealed several factors which were restricting Abbey Life's ability to fully apply the planned approach to development laid down in the company's NPD policy. Although the company wished to be seen as a market leader and innovator by its competitors, employees, shareholders, and the media, the informal culture that existed within the organisation was a limiting factor to obtaining this objective. The informal culture was one that was influenced predominantly by actuarial staff, who were mainly in charge of development activities, which, as the case study illustrated, became product or cost led rather than marketing led.

Marketing research viewed as a key support technique in the marketing and NPD literature, was in very limited use during the development of Living Assurance. Although the company viewed the new product as complex and innovative, (a case where one would presuppose that there would be heavy use of research), the timing of the project and the political nature of its initial conception, were organisational factors viewed by respondents as impeding the utilisation of this support technique. However, there was little allowance made for continuous NPD and marketing research activity in departmental timetables, nor in the staffing and budget allocations of the marketing research function, which would indicate that the commitment to innovation and market leadership was somewhat superficial.

A key finding of the case study therefore, which has significance for all organisations both within and outside of the PFS sector that aspire to be market driven and committed to NPD, is that such corporate objectives must also be translated into a set of workable principles that lay the foundations for an all-pervasive marketing orientation throughout the company. Again, there is no one formula that can be universally applied to inculcate the 'correct' attitude across all organisations with such aspirations. However, ensuring that the following factors are in place can go some way to creating the necessary conditions:

- (1) the adoption of a suitable organisational structure and planning procedures
- (2) the creation of an infrastructure that enables continuous marketing research to be carried out and provides for on-going development projects
- (3) the management of NPD activity to be undertaken by individuals with direct experience of the benefits of marketing research who can act as 'research champions'
- (4) the implementation of a staff training programme in all disciplines and at all levels of the company, which stresses the importance of the marketing concept
- (5) commitment and support for marketing research from top management.

As the case study further indicated, the distribution of new products through a direct sales force brings with it potential problems of controlling the market outcome of new products. General attitudes, perceptions and characteristics of field staff influenced initial reactions and product acceptance decisions, in addition to the subsequent decision to present to the end consumer. More specifically, the particular attributes of Living Assurance and the way in which they were perceived by sales personnel contributed to its uneven sales record across the country. Furthermore, the method by which Living Assurance was communicated and launched to sales personnel by Abbey Life was seen as a critical influence over eventual market performance.

The broad implications that these findings have for Abbey Life and other companies both within and outside the PFS sector with similar distribution strategies can be seen in terms of:

- (1) a requirement for a greater understanding of the decision rules associated with new product acceptance
- (2) a need for in-depth research into the attitudes of sales personnel to new products before and after they are launched
- (3) a closer analysis of existing methods of communication and launching of new products to the field, for example how well they achieve their primary purpose of selling the new product internally.

Any organisation involved in the development of new products needs to take a questioning stance at each stage of the NPD process. It is not just a matter, therefore, of going through all stages of the process by rote, but more a case of asking what factors can affect the development, launch and distribution of this product? Indeed, does each stage of the recommended process apply? A set of guidelines have been produced (Appendix 1) that provide a number of basic question to heighten practitioner's awareness of some of the issues which have been highlighted by the research, and which therefore need to be considered.

It is possible to argue that the findings also indicate the need for marketing research which looks at the behavioural aspects of new product development. Any organisation which selects methods of distribution that involve high levels of service content, cannot at the same time ignore this important element of NPD programmes. Although those involved in the development of specific new product maybe actively committed to it, being cognisant with all of the products positive aspects and benefits, this does not necessarily translate into similar perspectives in the field. Greater prior knowledge, therefore, of behavioural and attitudinal barriers is required in order for such factors to be taken into account in development programmes and subsequent communication strategies.

8.4 - IMPLICATIONS FOR FUTURE RESEARCH

This study has attempted to fill the gap in the NPD and marketing literature by studying the realities of planned NPD in the PFS sector, and the organisational and behavioural factors influencing new product market outcomes. In light of the findings of the research there are a number of areas that require further investigation. Firstly, there is a need to further investigate NPD activity and the use of marketing research in companies both within and outside of the PFS sector in order to establish how generalisable the findings from the postal survey actually are. The question of the applicability of existing NPD models needs to be further addressed in order to discover the extent of the gap between theory and practice, and whether a more contingent approach is now required.

Finally, more in-depth examinations are required of the key aspects of the distribution of new products through the medium of a direct sales force. In particular, greater knowledge is required of the influence of sales personnel over the eventual market outcome of new PFS products. Further case studies across industry sectors could help point towards how important the influence factors specified in this study are, in addition to providing further variables which organisations need to take into account when developing new products.

In conclusion, as the research has endeavoured to show, new product development cannot be undertaken in an isolatory fashion. That it takes place within sectorial environments that are dynamic and competitive, and within organisations that are political and diverse in nature, gives some indication of the multifarious influences that exist which can act as barriers or stimuli to NPD projects. Existing models and approaches to development activity have provided a foundation of knowledge for the practitioner. However, if taken literally and without an awareness and understanding of the penetrative influence of organisational, behavioural and environmental factors, they can become a straightjacket, limiting new product success. By supplementing a more contingent approach that takes into account the multitude of factors that can affect the development, launch and distribution of new products, it is possible to harness existing procedural rigour in conjunction with a questioning awareness of the realities facing organisations involved in NPD activity.

APPENDIX I**GUIDELINES FOR THE DEVELOPMENT OF NEW PFS PRODUCTS**

The following guidelines ask a number of basic questions, providing PFS practitioners with timely reminders of some of the factors which, as the research has shown, can affect NPD undertakings and which need to be taken into account within their own NPD programmes.

1 CHANNELS OF DISTRIBUTION

- Is the new product going to be distributed through a direct sales force?
- Are sales personnel tied, independent, or employees of the organisation?
- What types of general control and motivational mechanisms are in place?
- How will the new product be introduced to sales personnel; national/regional launch, in-branch?
- Will launch to press and sales personnel take place at the same time, or two separate events?
- Will the person communicating the new product to the consumer be an employee of the company?
- Will they be a PFS professional; how many years service have they had?
- What is their degree of influence over the sales outcome, eg over the consumer?
- What types of factors shape this influence; eg similarities in age, gender, education?
- How can such information be ascertained; eg matching previous sales records with individual characteristics, discussions with branch managers or sales personnel themselves?
- Can the organisation instigate any form of direct contact with the end consumer in order to control sales outcomes in some way; eg direct promotional mailing of new products in addition to personal visits?

2 ORGANISATIONAL FACTORS

- What degree of autonomy exists for sales personnel?
- Are sales targets set for individual products?
- Are sales personnel involved in the NPD process; could they be?
- How will incentives to sell the new product be arranged?
- Whose responsibility is the success of the new product?
- How will success be measured?

3 PRODUCT COMPLEXITY

- Has any research into the feasibility of the new product been carried out both in-company and externally?
- Is the new product easily comprehended by the consumer?
- Is the product concept understood and easily communicable to staff?
- Will it require extensive provision of training, sales literature, promotional support?
- Are there any product attributes that need changing before national launch takes place?

APPENDIX 2

ABBEY LIFE BRANCHES RANKED IN TERMS OF LIVING ASSURANCE PRODUCTION

Branch	Approx No of Cases to June 1988	Percentage of Total Production
Hounslow	573	18
Mayfair	155	13.5
Whitgift	231	22
Langham	310	7
Harrow	288	14
Westminster	276	11
N Ireland	277	13
Upminster	294	6
Edinburgh City	342	16
Central London	237	8
Leeds	318	16
Hanley	251	9
West London	174	9
North London	176	14
Glasgow	212	14
Newbury	190	11
C Manchester	264	8.5
Darlington	254	9
Brighton	203	4.5
C Edinburgh	212	9.5

Appendix 2 continued....

Glasgow City	203	8
Oxford	156	6.5
Leicester	171	7
Reading	158	4
Edgbaston	159	5
Bournemouth	117	5
Watford	154	7
Cheltenham	115	17
Croydon	106	5
Chesterfield	116	10
Ealing	112	7
Wolverhampton	117	7
Ravenscourt	71	11
Preston	118	4
Manchester City	80	4
Truro	110	11
Sheffield	95	4
Southampton	83	4
Nottingham	102	4
Ambassador	62	5.5
Birmingham	113	5
Washington	80	6
Aberdeen	111	9
Leighton Buzzard	91	5
Plymouth	70	5

Appendix 2 continued....

Kingston	65	2
Ipswich	51	8
Warrington	82	9
Bishops Stortford	68	14
Liverpool	71	5
Mildenhall	56	7
Maidstone	66	3
Newcastle	84	4
Chichester	66	4
Waltham Forest	56	5
Dundee	73	6
Norwich	62	8
Colchester	48	2
Stevenage	47	4
Swindon	66	5
Bristol	43	4
Finchley	47	3
Northampton	45	6
Swansea	36	2
Heathrow	17	6
Cardiff	43	2
Coventry	16	4
Canterbury	28	2
Hatfield	12	2
Crawley	23	2
Guildford	21	1

appendix 2 continued....

Carlisle	21	6
Bradford	16	18
Taunton	13	4
Stockport	8	4

APPENDIX 3

Dear Market Research Manager

**THE USE OF MARKET RESEARCH IN DEVELOPING
NEW FINANCIAL PRODUCTS**

As part of a research project on new product development in financial services we are writing to ask for your help.

We are trying to audit the current usage of market research in developing new financial products using the enclosed questionnaire. To help us to obtain a complete picture of current practice, you will greatly assist us by either filling it in yourself or, by passing it to a more appropriate colleague to complete. It should be returned to us using the label provided.

We have had great difficulty in defining a 'new' product so as to distinguish it from an existing product which is being modified, rejuvenated or introduced into a new market. We have settled for the rather simplistic definition that 'a new product has a new name'. If a different definition is more appropriate for your organisation please write it in on top of the questionnaire and use it in answering our questions.


In order to respect company confidence we will only use the results in aggregate form (unless prior permission is obtained in writing). We will send you a summary of our findings if you fill in your name and address at the end of the survey.

Thank you in advance for your help. If you like to discuss our project further, or have any queries please do not hesitate to contact Heather Davison or myself at the above telephone number (ext 5016).

Yours faithfully

Trevor Watkins.

Dr T Watkins
Head of Department


DORSET
INSTITUTE
OF HIGHER
EDUCATION
DEPARTMENT OF
BUSINESS
MANAGEMENT

Wallisdown Road
Poole Dorset BH12 5BB
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(0202) 28938

Director:
Bernard R MacManus,
BSc(Eng), PhD, CEng, MIProdE,
FRSA

Head of Business Management
Trevor Watkins, BA, MSc,
PhD, MInstM, AMBIM

PRODUCT DEVELOPMENT AND THE USE OF MARKET RESEARCH
IN THE PERSONAL FINANCIAL SERVICES SECTOR

Q1- All Respondents

Has your organisation been involved in any product development in the last year?

YES/NO (delete as appropriate)

If YES please proceed to question 1(a)
 If NO please explain the reason for this:

Please go to question 16

Q1(a)

Please identify which of the following forms this product development took? (Please ✓ as appropriate)

New Product/ New Market	<input type="checkbox"/>
New Product / Existing Market	<input type="checkbox"/>
Rejuvenated Product/ New Market	<input type="checkbox"/>
Rejuvenated Product/ Existing Market	<input type="checkbox"/>

Other (please specify) _____

TAKING EACH STAGE OF THE PRODUCT DEVELOPMENT PROCESS IN TURN:

Q2

Which if any of the following sources have been used to formulate ideas for new products? (Please ✓ as appropriate)

IN-HOUSE RESEARCH:

--Top Management	<input type="checkbox"/>
--Marketing Department	<input type="checkbox"/>
--Market Research Department	<input type="checkbox"/>
--Sales Staff (in branch/field)	<input type="checkbox"/>
--Venture Groups	<input type="checkbox"/>

EXTERNAL AGENCIES:

--Advertising Agency	<input type="checkbox"/>
--Market Research Agency	<input type="checkbox"/>
--New Product Agency	<input type="checkbox"/>
Changes in Government Policy	<input type="checkbox"/>
Customers	<input type="checkbox"/>
Competitors	<input type="checkbox"/>
Overseas Market Monitoring	<input type="checkbox"/>

Other (please specify) _____

Q3

In the last 12 months how many ideas for new products have been suggested?

Number _____

Q3(a)

Does your organisation get any consumer reaction to ideas for new products before any further development takes place?

YES/NO (delete as appropriate)

If YES please go to question 4

If NO please answer question 3(b)

Q3(b)

Please state the reason(s) for not obtaining any consumer reaction at this stage (Please ✓ as appropriate)

Too Expensive	<input type="checkbox"/>
Too Early to Obtain a Meaningful Response	<input type="checkbox"/>
Too Time Consuming	<input type="checkbox"/>
Not Necessary	<input type="checkbox"/>

Other (please specify) _____

Please go to question 10

Q4

Who obtains this information on consumer reactions? (Please ✓ as appropriate)

In House (marketing /market research dept) ☐
Advertising Agency ☐
Market Research Agency ☐
New Product Agency ☐

Other (please specify) _____

Q5

What methods are used to contact /interview the consumer? (Please ✓ as appropriate)

Group Discussion/Panel ☐
In-Depth Personal Interview ☐
Questionnaire Survey :
--In House ☐
--Personal ☐
--Postal ☐
--Telephone ☐
--In Branch ☐
--In Street ☐

Other (please specify) _____

Q6

How many consumers would usually be involved at this initial stage of the research?

Number _____

Q7

After obtaining initial consumer reaction to the 'idea', what are the major criteria which are used to decide whether to develop the product further?

(Please ✓ as appropriate)

- | | |
|---------------------------------|--------------------------|
| Minimum Sales Revenue Forecasts | <input type="checkbox"/> |
| Fit with Existing Product Range | <input type="checkbox"/> |
| Fit with Corporate Image | <input type="checkbox"/> |
| Cost Considerations | <input type="checkbox"/> |
| Profit Potential | <input type="checkbox"/> |
| Entry into New Markets | <input type="checkbox"/> |
| Increasing Market Share | <input type="checkbox"/> |

Other (please specify) _____

Q8

What proportion of 'ideas' are rejected at this stage?

_____ (-/%)

Q9

Who is responsible for deciding which 'ideas' to progress to a further stage of development?

- | | |
|-----------------------------------|--------------------------|
| Managing Director | <input type="checkbox"/> |
| Marketing Director | <input type="checkbox"/> |
| Board | <input type="checkbox"/> |
| New Product Development Committee | <input type="checkbox"/> |
| New Business Department | <input type="checkbox"/> |

Other (please specify) _____

MOVING ON TO THE NEXT STAGE OF DEVELOPMENT:

Q 10

Once 'ideas' are more fully defined after initial screening (which may or may not have included consumer research), but before a decision is taken to launch the product, does your organisation get any consumer reaction to the fully defined product?

YES/NO (delete as appropriate)

If YES please go to question 11

If NO please proceed to question 10(a)

Q10(a)

What is the reason for not testing consumer reaction?

Please state as fully as possible _____

Please go to question 12

Q11

Who undertakes this further research? (Please ✓ as appropriate)

In House (marketing/market research dept)	<input type="checkbox"/>
Advertising Agency	<input type="checkbox"/>
Market Research Agency	<input type="checkbox"/>
New Product Agency	<input type="checkbox"/>

Other (please specify) _____

Q11(a)

What methods are used to obtain this information? (Please ✓ as appropriate)

- | | |
|--------------------------------|--------------------------|
| Discussion Groups | <input type="checkbox"/> |
| In Depth Individual Interviews | <input type="checkbox"/> |
| Questionnaire Surveys : | |
| In House | <input type="checkbox"/> |
| --Personal | <input type="checkbox"/> |
| --Telephone | <input type="checkbox"/> |
| --Postal | <input type="checkbox"/> |
| In Branch | <input type="checkbox"/> |
| In Street | <input type="checkbox"/> |

Q11(b)

How many consumers would usually be involved at this stage of the research?

Number _____

Q11(c)

How is the product presented to the consumer? (Please ✓ as appropriate)

- | | |
|-------------------------------|--------------------------|
| Mock Brochure of Product | <input type="checkbox"/> |
| Story Board Techniques | <input type="checkbox"/> |
| Video of Advertising Campaign | <input type="checkbox"/> |
| Other Audio Visual Aids | <input type="checkbox"/> |

Other Sources (please specify) _____

Q12

Who takes the decision to launch a new product? (Please ✓ as appropriate)

- | | |
|-----------------------------------|--------------------------|
| Managing Director | <input type="checkbox"/> |
| Marketing Director | <input type="checkbox"/> |
| Board | <input type="checkbox"/> |
| New Product Development Committee | <input type="checkbox"/> |
| New Business Department | <input type="checkbox"/> |

Other (please specify) _____

Q12(a)

What criteria are used to decide whether or not to launch a new product?

Please state as fully as possible _____

Q13

If a decision to launch a new product is taken, are market tests in specified locations held?

YES/NO (delete as appropriate)

If YES please go to question 14

If NO please proceed to question 13(a)

Q13(a)

What is the reason for not holding market tests?

Please state as fully as possible _____

Please go to question 15

Q14

What type of locations are selected for market tests? (Please ✓ as appropriate)

Selected Branches ☐

Selected Sales Teams/Agents ☐

Selected Towns/Cities ☐

Selected Regions ☐

Selected TV Areas ☐

Selected Newspaper Readership ☐

Selected Direct Mail Samples ☐

Other (please specify) _____

Q14(a)

For how many products that have got to the test market stage, has the decision been taken not to launch them in the last year?

Number _____

Q14(b)

What in your opinion is the main reason for not launching these products?

Please state as fully as possible _____

Q15

How many products that have been launched in the last 3 years have now been withdrawn?

Number _____

Q15(a)

What in your opinion is the main reason for withdrawing these products?

Please state as fully as possible _____

Q15(b)

Of those products withdrawn what proportion had been market researched?

_____ (-/%)

FINALLY, SOME GENERAL QUESTIONS ABOUT YOUR ORGANISATION

Q16-All Respondents

Please indicate which of these categories represents organisation's business activity:

	Major activity (✓ one)	Other activities (✓ as approp)
Building Societies	<input type="checkbox"/>	<input type="checkbox"/>
Banks	<input type="checkbox"/>	<input type="checkbox"/>
Insurance--Life	<input type="checkbox"/>	<input type="checkbox"/>
--Non-Life	<input type="checkbox"/>	<input type="checkbox"/>
Licensed Deposit Takers	<input type="checkbox"/>	<input type="checkbox"/>
Unit Trusts	<input type="checkbox"/>	<input type="checkbox"/>
Estate Agents	<input type="checkbox"/>	<input type="checkbox"/>

Q17-All Respondents

Please give an estimate of the number of employees in your organisation

Under 100	<input type="checkbox"/>	1000--9999	<input type="checkbox"/>
100---499	<input type="checkbox"/>	Over 10000	<input type="checkbox"/>
500--999	<input type="checkbox"/>	Don't Know	<input type="checkbox"/>

Other _____

Q18-All Respondents

Does your organisation have a centralised marketing department?

YES/NO (delete as appropriate)

If YES please go to question 19

If NO please answer question 18(a)

Q18(a)

Is there any other department responsible for the marketing function in your organisation?

YES/NO (delete as appropriate)

If NO please go to question 20

If YES please specify _____

Q19

To whom does the marketing function report?

Please specify _____ (Job Title & Dept)

Q19(a)

How many staff are employed in the area of marketing (excl. sales force)

Number _____

Q19(b)

How long has the marketing function been established?

Less than one year ☐

1--2 years ☐

6-10 years ☐

3--5 years ☐

Over 10 years ☐

Q19(c)

What area is responsible for? (Please ✓ as appropriate)

Advertising ☐

Brand Management ☐

Product Development ☐

Promotion ☐

Direct Mail ☐

Pricing ☐

Market Research ☐

Other (please specify) _____

Q20-All Respondents

Is there an identifiable separate market research function in your organisation?

YES/NO (delete as appropriate)

If YES go to question 20(a)

If NO go to question 21

Q20(a)

How many staff are employed in the area of market research?

Number _____

Q20(b)

How long has the market research function been established?

Less than one year ☐

1--2 years ☐

6-10 years ☐

3--5 years ☐

Over 10 years ☐

Q20(c)

To whom does the market research function report?

Please specify _____ (Job Title & Dept)

Q20(e)

What is the annual market research budget excluding staff costs?

Under £10000 ☐

£11---50000 ☐

£51--100000 ☐

£101--500000 ☐

£501-1million ☐

Over 1million ☐

No separate budget ☐

Don't know ☐

Q21-All Respondents

Which if any of the following sources of market research has your organisation used in the past 12 months? (Please ✓ as appropriate)

EXTERNAL SOURCES

New Product Agency	<input type="checkbox"/>
Market Research Agency	<input type="checkbox"/>
--Qualitative	<input type="checkbox"/>
--Quantitative	<input type="checkbox"/>
--Continuous Data	<input type="checkbox"/>
(eg panels, omnibus surveys etc)	<input type="checkbox"/>
Advertising Agency (market research department)	<input type="checkbox"/>
Off-Shelf Market Reports	<input type="checkbox"/>

INTERNAL SOURCES (please specify) _____

THANKYOU FOR YOUR CO-OPERATION. PLEASE RETURN THE COMPLETED QUESTIONNAIRE USING THE LABEL PROVIDED.

POSITION IN ORGANISATION _____

IF YOU WOULD LIKE TO RECEIVE A SUMMARY OF THE RESULTS PLEASE STATE YOUR NAME AND ADDRESS.

NAME _____

ADDRESS _____

For Further Enquiries Please Contact: Heather Davison/Trevor Watkins
Dept of Business Management
Dorset Institute of Higher Education
Wallisdown Road
Poole
Dorset
BH12 5BB

R&C
ROMEIKE & CURTICE

FINANCIAL TIMES

Planner No. 65A-80
Daily - 254 300

An income for life

MANY PEOPLE are not afraid of dying. But they are frightened by the prospect of a "living death" as a result of falling seriously ill and perhaps becoming permanently disabled and unable to work.

A life assurance policy which pays out a large sum on your death is not much use in those circumstances, especially if you have no dependents. Much better to have the money to help, or your family, cope with your illness.

That is the thinking behind Abbey Life's Living Assurance policy, launched last week, as a "totally new concept" in paying out death benefits before you die.

It is, in fact, a package of existing products put together. The new policy incorporates standard life cover with permanent health insurance and limited cover against sickness. It pays before death if you contract certain specified serious illnesses—heart attack, stroke, coronary artery surgery (known as by-pass surgery), certain forms of malignant cancer, kidney failure and permanent disability before age 60.

AIDS is not included, since the life companies have not yet decided how to tackle this modern disease, where there is limited historical data on which to base premiums. However, if someone contracted AIDS after taking out the policy and as a result suffered one of the specified diseases or permanent disability then the lump sum due on death would become payable.

Abbey Life claims that unlike permanent health insurance, which is becoming increasingly popular, its new policy offers a lump sum, equivalent to the death benefit, of up to £100,000, at the time when you may need it most. True, but you pay heavily for the privilege of receiving several types of cover in one package. Premiums are on average 80 per cent more

expensive than for a normal life assurance policy.

The cost doesn't end there. It is a unit linked policy, invested in up to five Abbey Life unit trusts of your choice. So you pay an initial charge of 5 per cent and then an annual management fee equal to 0.75 per cent of the value of the fund.

Because it is unit linked, and no-one can predict with any certainty how the funds or the stock markets will perform, the sum assured is guaranteed for only five years. Then it is reviewed every five years. You are all right if the growth in the value of the funds chosen has been 7.5 per cent a year or higher and the company has not altered its charges.

ABBEY LIFE

R&C
ROMEIKE & CURTICE
THE PRESS CUTTING BUREAU LTD. 01 462 3155

THE TIMES

Planner No. 65A-130
Daily - 467,300

... 1987

Abbey Life has launched a plan that pays out a lump sum of up to £100,000 when a policyholder is diagnosed as having one of a range of serious illnesses, such as certain forms of cancer or kidney failure. If the policyholder does not contract one of the specified illnesses, his or her next of kin will collect the life assurance benefit when the policyholder dies.

Living Assurance is broader than life assurance, where payment is on death only. It also differs from permanent health insurance, where earnings are maintained when ill health forces the policyholder to stop work.

Abbey Life can rightly be proud of this development, which recognizes that many serious illnesses are not immediately fatal but can warrant expensive lifestyle changes.

Abbey Life

R&C
ROMEIKE & CURTICE

DAILY NEWS

Planner No. 65A-94
Daily

8 JUN 1987

MONEY WISE



LIFE assurance which pays out when you succumb to a number of serious illnesses or are permanently disabled instead of just when you die - that's what's being offered by Abbey Life.

Its new Living Assurance policy will pay out a lump sum of up to £100,000 if specified illnesses, such as cancer, heart attacks, strokes, kidney failure or bypass surgery, are diagnosed.

The sum, which can be used for any purpose, is paid out when you contract any of these diseases. Alternatively, your next of kin will collect the benefit on your death.

Abbey Life expects this new policy to be particularly attractive to single people and others without dependants for whom normal life assurance has had little appeal.

It's a unit-linked, whole of life plan which is available to anyone aged between 17 and 70. Premiums can be paid either annually or monthly and there is a low start option. Non-smokers pay reduced premiums.

Abbey Life

R&C

ROMEIKE & CURTICE

THE PRESS CLIPPING BUREAU Tel 01-862 0189

FINANCIAL TIMES

Planner No. 65A-80

Daily - 254,300

- 5 JUL 1987

The Sunday Telegraph June 7 1987

New Abbey Life policy to benefit the living

By John Edwards

A LIFE assurance policy that pays out before death if you become seriously ill was announced yesterday by Abbey Life.

Under the policy, called Living Assurance, a lump-sum payment of the sum assured is made in full, up to £100,000, if the policyholder is diagnosed as having one of a range of specified illnesses or suffers permanent disability.

The specified illnesses—heart attacks, strokes, coronary, kidney failure and some forms of cancer—do not include Aids.

Michael Hephir, chairman and managing director of Abbey Life, said the group, like other insurance companies, could not provide cover against Aids because of the unknown risks.

However, if a policyholders who contracted Aids and as a result suffered permanent disability or one of the specified illnesses, then the assured sum would be payable.

Abbey Life believes the new policy, claimed to be the first of its kind in Britain, will have special appeal to single people and others without dependents.

Because of the extra benefit, the cost is higher than for a normal life policy. A single man, non-smoker, aged 30, would pay a monthly premium of £15.44 for cover of £20,000.

Abbey Life's health and wealth plan

SO MANY "unique" insurance plans are launched each year that it is easy to assume that nothing new will ever appear. But Abbey Life's new Living Assurance scheme, launched last week, shows it can.

It is an ingenious combination of life cover and medical insurance—and is certainly the first of its kind in Britain.

Abbey Life, headed by Michael Hephir, aims to provide you with funds to help with the cost of adjusting to medical emergencies including heart attacks, strokes, most forms of cancer and kidney disease. The policy will pay out if you are hit by any one of them, or if some illness renders you completely unable to work. If you do not survive, the money goes to your family.

You can use the funds as you wish, perhaps to change the house to provide ramps or a lift if you are confined to a wheelchair; or to provide yourself and family with a replacement income while you cannot work; or, perhaps, to go on a world cruise.

People traditionally take a gloomy view of their own recovery prospects, but survival rates are rising all the time. Two-thirds of the men who have a heart attack, for instance, are

here to tell the tale five years later, and a whole range of cancers which used to be inoperable are now curable.

The one thing the new plan does not do is to leave you facing a large bill to repay when you

SAVINGS SCENE

recover. Once the funds have been paid, they remain yours whatever happens later.

Abbey Life claims that Living Assurance is partly aimed at people on their own—single, divorced, or widowed young—who have no-one on whom they could rely if some medical disaster were to strike. That is where one big gap in the policy becomes apparent.

Living Assurance is certainly a more expensive policy than the average "protection" policy designed to help protect the family against the risk of someone's death.

A non-smoking male aged 30 would have to pay £15.44 a month for £20,000 of benefit, and the comparable rate for a woman will be only slightly lower at £13.36. The top limit of £100,000 would cost that 30-year-old male non-smoker £72.00 a month, £61.60 for the woman. Rates rise fast for people entering the plan later on.

PERSONAL INANCE



Hephir: ingenious cover combination

In figures the costs work out at about 80 per cent higher than they do on a matching whole life insurance scheme. But they provide real protection—and the big issue now is whether people will actually think about the unthinkable—and insure themselves against it. Early signs are that they will.

THIS week Thornton Group is launching Kangaroo Trust for people looking for a way to hop into the booming Australian market. The aim is maximum capital growth from the market, and with the stress coming on Australian industrial companies and gold mining, though Thornton will keep the option to invest up to 10 per cent of the funds in New Zealand. But the group will keep away from mining companies outside the gold areas. It will be equally wary of commodities.

TOM TICKELL

Abbey's 'life' before death

ABBEY LIFE has introduced a radical new concept in life assurance. Called Living Assurance, it is a plan which pays up to £100,000 as soon as policyholders have a heart attack or a stroke or discover they have specified forms of cancer. It also offers attractive commissions for independent intermediaries.

Masterminded by Gary Jones, the general manager and director, sales and marketing, who was head-hunted from Grand Metropolitan last Autumn to give Abbey Life a shot in the arm. He promptly called for a new look at assurance products — by going to the public to find out what they most wanted.

Market research has revealed that there is a need for a permanent health plan which pays up on the spot, rather than in monthly instalments.

'Abbey Life', says Jones, 'sees the money being used to im-

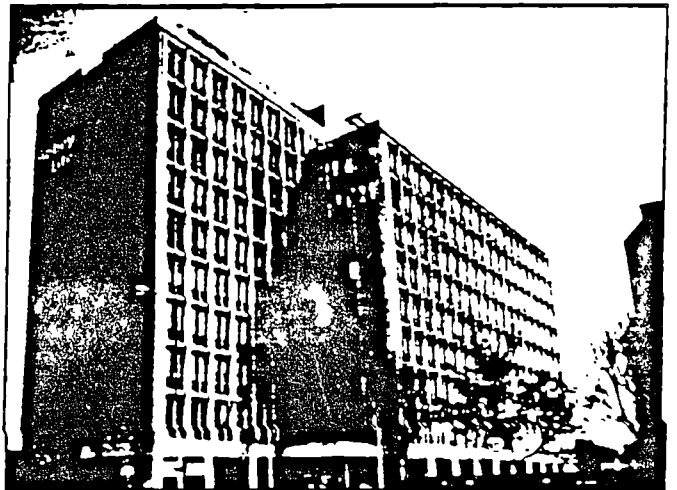
—by Jenny Harris—

prove the quality of life for the individual and his/her family during a stressful and demanding period.

'For example, the family could take a holiday or visit relatives overseas, or home improvements could be made to help cope with caring for an ill person.

'Many who receive the lump sum,' says Jones, 'may go on to make a full recovery and live to a ripe old age.

'They do not have to return the benefit!'



Abbey Life: Radical new permanent health plan

Living Assurance is a unit-linked whole of life plan with contributions payable throughout life and is available for those

aged 17-70. A joint life plan is available for couples where the benefit is paid out once, on the first claim.

Abbey Life
R&C
ROMEIKE & CURTICE
THE PRESS PRINTING BUREAU LTD
Evening News
Norwich
Planner No 678-460
Call - 51 900

— 10.00 — mfg

Life insurance early payout

NORWICH was one launching pad yesterday for a new form of life insurance which can pay out before death.

The Living Insurance policy introduced by Abbey Life means the policyholder can be paid in full for a heart attack, most cancers, a stroke, coronary artery disease surgery,

kidney failure and permanent disability before 60.

Even though the illnesses are not fatal they can mean a complete change in lifestyle. The aim of the policy is to help realise dreams if serious illness or disability should strike.

Norwich branch manager of Abbey

Life, Bob Tamlyn, said serious illnesses could place a huge financial burden on patients and their families. But many victims could live on for months or years.

That was why Living Assurance had been developed — to allow the money to be paid out when it was most needed.

Abbey tries 'new concept' for life

by Paul Durman

Abbey Life claims it has come up with a totally new concept in life assurance, with the launch tomorrow (Thursday) of a policy which combines whole life with some of the benefits of permanent health insurance.

However, Abbey's Living Assurance plan goes further than maintaining an individual's earnings when illness forces him to stop work.

It will pay out a lump sum on death, like any typical whole-life policy. But the unit-linked plan will also pay out in full if the policyholder suffers from heart attack, a stroke, cancer, kidney failure, permanent disability before 60, or if he needs coronary artery surgery.

The payout, which could be up to £100,000, does not have to be repaid even if the policyholder recovers from illness. A 29-year-old non-smoking male would pay £71.30 a month for maximum benefits. The equivalent premium for a 49-year-old is £238.53.

Abbey says the money could be used to improve the quality of life for the individual and his or her



SURGERY: COVER FOR CORONARY ARTERY OPERATION

family during a potentially stressful and demanding period.

"For example, the family could take a holiday together or visit relatives overseas, or home improvements could be made to help cope with caring for an ill person."

Living Assurance is available to those between 17 and 70. Abbey marketing analyst Nigel Shrewsbury says: "The plan should have wide appeal. The benefits should be attractive to the single person, to families looking for some extra protection and to the keyman market."

Couples can take out a joint life plan, with the

benefit paid out on the first claim.

Abbey is recommending that policyholders opt for managed fund units, but a range of ten funds is available.

Management charges are a rounded 5 per cent initially and 0.75 per cent a year. There is also a policy fee of £13 pa or £1.30 a month.

After a period of not more than two years, contributions are increased to up to 102 per cent.

Living Assurance will be sold through Abbey's normal sales channels, including brokers. The company will be spending £250,000 on advertising in the national press.

Abbey Life claims innovatory product launch

Post Magazine
The Insurance Weekly

JOE LAYBURN

Abbey Life claims to have devised a life assurance product that genuinely breaks new ground. This has angered Cannon Lincoln, which claims a similar policy it launched last December makes it the true innovator.

"Living Assurance" is a unit-linked whole life policy which pays out a lump sum of up to £100,000 in full, on diagnosis of one of a range of specified illnesses, or permanent disablement. The traditional death benefit remains where no earlier payment has been made.

Since the benefit is payable during the policyholders' lifetime, Abbey Life expects the product to appeal also to single people and others without dependents. This

group often feels that ordinary life assurance has nothing to offer it.

The conditions covered by the policy include heart attacks, strokes, various cancers and kidney failures. Abbey Life claims three in five adults will be affected by one of the conditions in their lifetime. Head of group marketing, John Davies, said: "The product addresses recovery as much, if not more than making death comfortable."

He quoted figures which show that over 65% of men of all ages survive at least five years after a first heart attack.

"Living Assurance" is available to anyone between the ages of 17 and 70. For a male aged 30 next birthday, who is a non-smoker, the

monthly premium for a £20,000 lump sum would be £15.44. This rises to £62.07 for a similar male aged 55 next birthday.

Cannon Lincoln's 'Critical Illness Cover' is now an optional part of its universal life package. Up to 50% of the life cover amount—but not more than £20,000—is payable on diagnosis of cancer, strokes and heart attacks.

The company says it has taken a more cautious approach than Abbey Life. Life product actuary Eli Friedwald said he felt that it might prove imprudent of Abbey to offer such large sums as a one-off payment.

● A Gallup survey for Abbey Life, of attitudes to serious long-term illness and its financial

consequences, has just been published.

Asked what their greatest concern would be should they fall seriously ill, 47% of men said having to give up work and being unable to care for their families. Some 51% of women worry most about the effect on their children, while 31% worry their husbands would have to give up work to look after them.

Almost three out of ten people (28%) doubted they could cope financially, if they became ill for a prolonged period. This rose to 45% among the widowed, divorced and separated. Of single people, 40% said their greatest fear was having nobody to look after them.

BUSINESS - YOUR MONEY

SAVINGS SNIPS

Abbey's life package covers illness

ABBEY Life describes its new package, Living Assurance, as a 'totally new concept in life assurance'. The tweak introduced by Michael Hephner and his team is that the scheme not only pays out a lump sum when a policyholder dies. Payment is also made if people are diagnosed as having one of a number of specified illnesses (such as a stroke or cancer) or if they suffer permanent disablement. As a result, Abbey feels the new life cover will appeal to those who are single, or have no dependents, as well as the more conventional buyers of protection. Technically Living Assurance is a unit linked whole of life plan. Contributions are payable throughout life and the scheme is available to those aged 17 to 70.



Hephner: New concept.

Abbey Life

R&C

ROMEIKE & CURTICE

THE PRESS CLIPPING BUREAU Tel: 01-862 0155

Eastern Daily Press

Norwich

Planner No. 678-450

Daily - 91 400

- 6 JUN 1987

Insurance for living

NORWICH was a launching pad yesterday for a new form of life insurance which can pay out before death.

The Living Assurance policy introduced by Abbey Life means the policyholder can be paid in full for a heart attack, most cancers, a stroke, coronary artery disease surgery, kidney failure and permanent disability before 60.

Even though the illnesses are not fatal they can mean a complete change in lifestyle. The aim of the policy is to help realise dreams if serious illness or disability should strike.

Norwich branch manager of Abbey Life, Bob Tamiyn, said serious illnesses could place a huge financial burden on patients and their families. But many victims could live on for months or years.

That was why Living Assurance had been developed — to allow the money to be paid out when it was most needed.

ABBEY LIFE

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Covering up for sickness

ABBEY LIFE has launched the "Living Assurance" policy, to cover those tough times which could follow loss of jobs due to serious illness.

Up to a maximum of £100,000 can be paid if a policyholder is diagnosed as having one of a list of illnesses such as heart attacks, cancer, multiple sclerosis, kidney failure.

At least this can reduce some of the worries which can accompany a prolonged bout of illness.

Abbey say many who receive the lump sum will go on to make a full recovery, and if that happens the money does not have to be returned.

PREMIUM

The price is higher than for ordinary life assurance: For a non-smoking man, aged 35, the premium is £20.62 a month for a sum assured of £20,000. For a 45-year-old it is £37.60 a month.

Cannon Assurance's Critical Illness policy, an optional part of its Universal Protection and Savings plan, is slightly cheaper, but not open to smokers. The maximum amount that can be claimed is £20,000, plus a further £20,000 on death, which is not included in Abbey's policy.

For a 35-year-old man, covered for 19 years approximately, the premium is £15 per month.

Full life cover costs £32.40 a month. At 45, the premium is £36.20 and £62.70 respectively.

AIDS is not on the list of illnesses but both companies say they will pay out if AIDS causes one of the listed illnesses.

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