

CROSSROADS OF INNOVATION AND PSYCHOLOGY

by [Steve Brown](#)

Psychologists say people tend to overestimate and generally overvalue the benefits of a new product or service by 300%. We don't intend to do that, it is just part of the human psyche, as we tend to get excited. As such, we end up overestimating everything from adoption rates of remote capture, loan growth and deposit gathering in new branches to name but a few examples. In short, when we try to anticipate another person's choice or judgment (i.e. adoption of a new product or service), we have a hard time ignoring what we already know ourselves, so we overestimate their interest.

Given that another recent study shows 71% of companies will expand into new markets with their current product suite and that 57% will launch at least one new product next year, knowing this information can increase success.

If your bank is among those preparing to launch a new product in the next 12 months, understanding product development staff have an inherent bias toward overestimating success can go a long way in keeping you one step ahead of the competition. Among some of the most critical things bankers should consider:

• Be realistic and reduce projected adoption rates by 67%. As seen above, we are in love with our new products, are inherently biased toward them and studies show we tend to overestimate by this amount.

• Understand what else is out there that could be existing competition. People need to see at least a 300% improvement in an existing product or service before they will even consider switching to something new.

• Know that the fewer changes the new product requires of the recipient, the higher its adoption rate will generally be and the more likely it is to succeed.

• The reverse is also true. A product or service that requires significant behavioral change, but delivers low perceived benefit is a recipe for disaster.

• Be patient and commit enough resources to give the new product or service a chance to succeed. Pulling the plug after a short period of time does not give a new product time to mature and blossom. Executives should expect adoption to be a slow and very drawn out process that will require much of their attention and sales effort to ensure success.

• Don't have too many balls in the air at one time. Companies and people can only handle so much change at once and launching new products properly is time consuming and oftentimes expensive. To ensure the success of new projects, don't do too many at once and focus maximum resource to achieve success. A good rule of thumb to use is that once breakeven is achieved, focus can then be shifted onto the next product or service innovation.

• Do a comprehensive product write-up before launch, to ensure business requirements will be met. Among some of the most critical elements such a document should address include: benefits, costs,

adoption rates, time to breakeven, sales channel and how they will be compensated, product pricing, regulatory/compliance review, technology support and integration requirements, customer need being met, milestones for success, marketing campaign costs and timelines and other departments that will play a critical role or otherwise be impacted.

Studies indicate 9 out of 10 new products will not meet stated expectations. To ensure maximum success, get realistic with assumptions, provide support and be sure to utilize the tips provided above.

BANK NEWS

New Clients

The SEC issued a guide to help small public businesses comply with SOX 404. The 2007 annual report will be the first time that small public companies are required to include a management assessment of internal controls over financial reporting. Since this information is new and relevant, some banks are using it as an educational/marketing program to help develop business.

New ATMs

JPMorgan Chase announced that it will deploy 900 image-scanning ATMs that can accept up to 30 checks at a time without an envelope. If you haven't considered these machines in order to reduce branch costs or extend your footprint, you should. User satisfaction is rumored to be higher than any other remote product available (RDC, online banking, mobile, etc.) and activity increased some 35%+. A recent Celent study found that 40% of large banks are planning to convert to this technology over the next few years.

FDIC IT Exams

The Regulator has updated its examination procedures for IT reviews to include a more risk-based approach and focus on vendor management/service provider oversight, payment system operations and enhanced general procedures.

Defaults

Moody's predicts the default rate on non-investment grade loans will rise from a current 1.5% rate to about 4.1% in 2008 and 5.1% by mid-2009.

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