

# dimensions

insights for financial services executives

**Wealth management strategy and product specialists**

From insight to implementation

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## Product Management 101

### Let's start with the basics

Product management involves the key decisions relating to a product's:

- Features and quality
- Services
- Price

Product managers working in financial services generally have the following characteristics:

- They consider and plan for all the activities within the firm that will affect their products.
- They co-ordinate many different activities and act as an implementation resource.
- They are marketing specialists whose most valuable assets are their experience and insights.

However asset management products pose special problems for product managers compared to other areas of financial services. Unlike consumer products, or even many banking products, asset management products generally cannot be standardized. Quality can be extremely variable and hard to control.

This implies that qualities important in an asset management product manager will include an understanding of investment markets and the effect of different conditions on investment products, and what measures can be taken to manage product quality and mitigate business risk.

### Why it's important

Effective product management protects against catastrophic failures and sets a course towards improvement and development. As a general rule, the more sophisticated a firm and its products, the more important effective product management becomes. While incompetent investment management will certainly put a firm out of business, it will usually take some years, and the losses to customers are generally moderate. Incompetent product management – such as a failure to monitor and manage liquidity - can destroy a firm's reputation in a day and wipe out customers' investments.

Apparently simple investment products are capable of producing very strange, and very adverse, outcomes.

This is particularly the case when you combine products with illiquid investments and/or gearing, either direct or indirect. The recent structured products fiasco is an example of flawed products which wiped out many customers' investments and destroyed or damaged the firms associated with the product.

Although flirting with risky structures and strategies clearly invites disaster, it is also entirely possible for, say, a relatively simple unit trust to become insolvent despite having fully liquid investments and no gearing. Investment products are a complex interplay of investment characteristics, tax consequences, income and capital accounts, liquidity, gearing and investor movement in and out. The investment component, while a critical input, is just one.

Mastering this swirling mix of alphas, betas, tracking errors, information ratios, derivatives, tax consequences, capital gains, distributions, net inflows – while achieving a profitable outcome for the firm - is no small achievement. This however is the brief of the product manager.

### Product success and failure

A successful product is defined as one that delivers to the experience expected by the customer; ie it is true to label. Conversely, a product failure is defined as a product which falls materially short of the promised customer experience.

Product failure can vary significantly in severity, from simple under-delivery, to cases of catastrophic failure and total loss of the investor's assets. Aspects of product failure include:

- Investment performance significantly below benchmark.

- Satisfactory investment performance but unsatisfactory delivery in terms of tax effectiveness (where applicable to the jurisdiction).
- Satisfactory total investment performance but failure to deliver anticipated income distributions.
- Loss of liquidity resulting in an inability to meet investor redemptions on normal terms.
- Unanticipated investment losses.
- Over-exposure to particular assets including deviations from policy.
- Financial or structural gearing which results in significant investor losses or insolvency.

The consequences of product failure are usually severe and sometimes can threaten the existence of the firm. At the very least, product failure will usually result in a substantial outflow of investors and a significant hit to anticipated profits. In the mid-range, freezing of redemptions will generally raise questions about a firm's processes and competencies, and can result in brand damage. At the extreme, an effective insolvency of a product and substantial loss of investors' assets can be sufficiently damaging to destroy a firm.

The motivations for preventing product failure should therefore be very strong.

### Product management resources

The primary resource used to assess the product management task set is people. Traditionally the product team has been one of the largest functional

groups within an asset management team after investments and distribution.

While this is sometimes still the case, it is our observation that product teams have been hollowed out over the past 5-10 years; ie teams are both smaller and less experienced. However the task set has not shrunk nor has it become any less relevant as the many product failures of the 2008-9 bear market has demonstrated. As a result, the industry's performance over this period has been no better than in prior periods of market distress.

Boutique asset managers will often have no product team at all. Mid-size firms will often have 1-4 people of varying ability and experience. Large firms will typically have 10 or more, split between product development and product management.

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## Green shoots = time to start thinking about Product Management for the future

Good product professionals are rare and expensive. As economies and markets recover globally now is a good time to re-think your Product function. Do you have the right resources? Do you have the right people? Do you have enough people? Do you have the right products? How can you position your product suite to take advantage of the recovery?

### Tria can help....

Tria Investment Partners are wealth management strategy and product specialists. We offer an external product resourcing model and can provide assistance in a variety of areas including research, product design and development, implementation, restructuring and integration.



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