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Developing New Financial Services from Lead User Input in India

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Abstract

User interaction is an important success factor for most new financial services. Yet, users should be selected carefully for the purpose of interaction. For example, lead user is one key customer type that a service manager must take into account while selecting users. Thus the core thesis of this research is that a successful NSD project needs lead users. Longitudinal field interviews were conducted to collect data about the interaction process with the lead users in a financial service firm in India. Based on the findings this research develops a structured process of finding lead users and interacting with them for developing new services. The findings provide useful insights for the managers attempting to develop successful new services.

Keyword: Lead User, User Interaction, Service Innovation, Longitudinal Research, Case Research, India

Introduction

Various studies have provided empirical support for the positive link between user interaction and the success of new services (de Brentani 1995; Edgett 1994; Storey & Easingwood 1993; Cooper & Edgett 1996) and new products (Henard & Szymanski2001; Brown & Eisenhardt 1995; Griffin & Hauser 1996). Studies of lead users by von Hippel (1978) and his colleagues have further emphasised the role of user interaction in developing successful new business-to-business products. Yet, several empirical studies have raised doubts about the benefits of user interaction in New Product Development (NPD) (Simonson, 1993;2005). They caution that merely following an average or typical user suggestions could lead to trivial innovations because average users are inherently short-sighted and have poor insight into their own needs and preferences. Therefore, managers are advised to discriminate among different types of users for the interaction purpose because success of a new service hinges on the quality of user input and not just the quantity of input (Johne, 1994). Particularly, expert and knowledgeable users are likely to be an important information source. One such type of expert user that has attracted keen interest among the practitioners and researchers alike is the lead user because the lead users can generate innovative new product and service ideas (Lilien *et al*., 2002). Following the seminal work by von Hippel (1978) on lead users, several empirical studies on how to find and involve lead users in NPD have been reported in the extant literature (Herstatt & von Hippel, 1992; Olson & Bakke, 2001), yet the same effort has not been replicated for the new services area, although services are different from tangible products (Lovelock, 1983; Shostack, 1977). This research addresses this existing gap in the literature and makes contribution to the literature of New Service Development (NSD). In particular, a macro contribution of this study is that it is the first attempt to propose a systematic approach to search and involve lead users in NSD in an emerging country, India.

Against this background the objective of this research is to investigate the process of lead user interaction in NSD in India. The research question is how to implement a lead user method for developing new services? This research issue is addressed with a longitudinal case study that focuses on the process of finding and involving lead users in NSD in India. Thus, the study addresses the call for more longitudinal studies on lead user analysis (Olson & Bakke, 2001; Ozer, 2009). The research is conducted in India because of the massive growth in many service sectors in that country. This study is set in the financial services industry. The financial services industry is a worthy test of lead user method because

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of the high level of innovation in that industry resulting from deregulation and technological advancement (de Brentani, 2001; Thomke, 2003). In addition, this research is delimited to industrial services because business-to-business transactions in a modern service economy are more important and complex than the retail services (Boyt & Harvey, 1997). The paper has four sections. First, the review of extant literature related to lead user interaction is presented. Subsequently, data collection procedure and research method are discussed. Next, the key findings and managerial implications are discussed. The article concludes with a discussion of limitations and future research directions.

Literature Review

Despite the strategic importance of new services as the source of competitive advantage, most new services eventually fail in the market (Alam, 2002). A key reason for the new service failure is that many new services tend to be marginal in nature and rarely involve radical new service ideas. One solution to the problem of high failure rate is obtaining input from users during NSD because user inputs help refine a firm's knowledge of users' tastes and preferences (Carbonnell *et al.*, 2009). Nevertheless, several studies indicate that new product/service success is related to proactive market interpretations rather than from merely following the suggestions of users (for example, Johne & Snelson, 1990). There is a need to discriminate between different types of users for the purpose of interaction (Ramani & Kumar, 2008). Users that are innovators and experts are likely to be an important information source, while other types of users are less useful for they suggest only incremental and low risk product change (Johne 1994).

Yet ordinary users also have a role to play in a firm's innovation efforts because they can offer functional descriptions of how a new service idea should work, rather than providing solutions to the users' problem as is the case of lead users. Similarly, Gruner & Homburg (2000) reported that the issue of user characteristics should be considered seriously in user interaction and it must be a major consideration in user interaction process. Motivated by this finding, marketers of new tangible products have started to systematically seek out users and customers as a source of ideas for new products. These types of users were initially named as lead users in a seminal study by von Hippel (1986) discussed next.

Lead User Characteristics

The lead user concept proposed by von Hippel (1986) is based on the assumptions that (1) the lead users have real world experience with the needs that future profitable products must serve and with attributes they must contain; and (2) they expect to benefit substantially by obtaining a solution to their needs. Since the lead users stand to benefit substantially from the innovations they will be highly motivated to participate in the interaction process. Importance of lead users in NPD has been recognised by many organisations such as Hewlett-Packard, 3M and Sony, who have frequently introduced radical new products through small teams that worked closely with the lead users (Quinn 1985). Other studies have also confirmed the usefulness of lead users in developing successful business-to-business products (Lilien *et al.*, 2002; von Hippel 1986; Franke *et al.*, 2006; Morrison *et al.*, 2004; Urban & von Hippel, 1988). Therefore, one can surmise that a proper use of data obtained from lead users in NSD will allow practitioners to identify profitable new service opportunities or service attributes that are invisible today.

Identification and Selection of Lead Users

Although lead users are useful, their identification for the purpose of interaction is complex (Rogers, 1985). Lead users only represent approximately 2.5 percent of the total number of users and therefore they might not be a good representation of the remaining 97.5 percent of the market (Rogers, 1985). To overcome these criticisms and problems, three case studies have described a four step systematic process for using lead user input in new tangible product development (Herstatt & von Hippel, 1992; Urban & von Hippel, 1988; von Hippel *et al.*, 1999). The first step involves specifying lead user indicators that include, identification of important trends on which a user leads the market and evidence that the user in question expects high benefits out of the new products. A proxy for expectation of high benefits can be the evidence that the users are actually involved in innovation related activities themselves. In the second step, a sample of lead users are identified using the indicators described in step one. Next, the selected lead users join the product development team to engage in several group problem-solving sessions, including the new product concept development. Finally, the product concept developed with the help of lead users

is tested in the market to determine whether the typical or routine users find the products to be acceptable. Overall this process worked well and yielded highly successful new products (Luthje *et al*., 2005). Similarly, Olson & Bakke (2001) applied the lead user method to a high tech product such as personal computers and found that the use of lead users in personal computer innovation resulted in several innovative new product ideas. The lead user theory was also tested on a sporting product of kite surfing by Franke *et al*. (2006), who asserted that the lead user method must be adapted to fit specific study context and goals. In conclusion, research contributions on lead users have drawn on an extensive literature on new tangible product development. This research builds on these previous works in the area of new tangible products by seeking to understand the process of lead user method for new services in an emerging country.

Methodology

The research design is built around case research method to capture a detailed experience of NSD and lead user methodology (Bonoma, 1985; Eisenhardt, 1989; Yin, 1994). In particular, the research reports on one clinical case study of lead user method employed by IBC Limited (a pseudonym), one of the leading multinational financial services firms having a strong presence in India. The intention of this in-depth case study is to layout a clear and detailed process of implementing lead user method for service innovation. Thus the empirical context for this study is financial services industry. This context is especially suitable because innovation is a critical and key activity for most financial service firms (Alam, 2002). In addition, the financial services industry is an important and widely studied context because a considerable volume of research has already focused on this industry (see reviews by de Jong & Vermeulen, 2003; John & Storey, 1998). In addition, India is an important market for lead user research because given the high growth rate in its financial service sector, India has the potential to become one of the major financial hubs in Asia.

IBC is chosen for this study because it is typical of many of the firms operating in the financial services industry in India and other emerging economies. There were several competitive and environmental forces impacting the service innovation strategy of IBC that led to the initiation of this research project. First, despite IBC's dominance in the market the managers were concerned about growing competition from other larger financial institutions that were expanding fast in the Indian market. This growing global competition caused the IBC to actively search for new means to stay ahead in the competition. Second, managers were concerned that their overall market share had become static and that to achieve growth they must develop new services. In the past, IBC had relied on users for new service ideas. However, users' requests mainly included incremental innovations or "me-too" type services. Thus the main problem of the firm was an on-going shortage of ideas for the innovative services. However, to be successful, managers recognised the need to adopt a new and unique approach to service innovation.

Among its several business areas, the one that is the focus of this study is IBC's international payment and cash management products. The market for this product was growing fast due to the growth in global trade and several regulatory reforms related to the global trade and commerce in India. As a direct result of these phenomena, IBC was also experiencing stiff competition in the global payment segment of the market. The main target market for this type of service was the medium sized firms involved in exporting and other international business activities located mostly in Mumbai, the financial capital of India. The need for a new global payment service arises because many corporate clients are faced with an enormous amount of complexity when it comes to global payments (Bruno-Britz, 2005). Differing payment systems, competing standards and the need for global firms to bank with institutions in every market they serve contribute to inefficiencies and high costs. Thus financial service firms are impelled to examine new service offerings that will generate profit and satisfy users.

Field Research Design and Data Collection

The research team headed by the author developed a longitudinal field research design similar to the one used by Gebhardt *et al*. (2006) and Narayandas & Rangan (2004). This method combines the qualitative data collection techniques, such as in-depth interviews, brainstorming, ethnographic observation and archival records analysis. Researchers have emphasised the importance of combining multiple data collection methods in conducting inductive field research (e.g. Deshpande, 1983; Eisenhardt, 1989). Prior research on lead user method is used to develop a six-step process. This six-step model is applied to field

Table 1: Emerging Trends in the Market

Trends	*Questions to explore*
Increased international trade activities of many US firms	What is the growth rate of international trade worldwide? What forces are behind this trend in the United States as well as various regions of the world?
Currency risk and hedging service	How to eliminate uncertainty and manage the risks and opportunities associated with changing currency values.
Euro replacing dollar as the main currency of international trade in many countries	What are the implications of this trend for the American firms? How the Single Euro Payment Area (SEPA) would work? How the Single Euro Cash Area (SECA) would work?
Increased concerns among international traders for reducing cost of cross border payment systems.	What are major cost-savings needs of a firm? How to cut the cost and complexity of cross border payment transactions?
Speedy foreign payments and collections	What are the key needs and problems faced by a business firm? How a payment card system for international trade and payment would help reduce costs and complexities? What technology can be employed to expedite the foreign payment and collection?
Use of foreign currency versus US dollars in international trade	What are the benefits and risks in dealing in foreign currency?

study of the lead user selection and interaction for NSD. As used in previous research, the research team iteratively synthesised findings both from field research and the extant literature to develop a comprehensive understanding of the lead user method in NSD process and identify factors that enhance the understanding of a firm's lead user interaction practices (e.g. Ulaga & Eggert, 2006; Workman *et al*., 1998). To electronically manage the interview transcripts, field notes and archival records, QSR International's Nvivo software is used that also allowed data coding. The case study database containing 143 pages of transcripts was sent back to the research participants for member checks. The overall data collection and analysis process lasted for about three months starting from October 2013. The research took place at the firm's head office in Mumbai, India.

Step 1: Preparing for the Lead User Project

In this first stage of the research, the overall focus and the key goals of the research are outlined and the key players and stakeholders that will implement the research are selected. It is indeed important to put together a very skilled and talented team to ensure the success of the project. Thus, after a thorough screening process, the key players that would be involved in this research, are identified. Two marketing managers and three product managers of IBC were identified as the stakeholders. First the team reviewed and discussed the trade journals and other documents that contained current information related to cross-border payment systems. The information from the trade journal and articles assisted the research team to identify two very important information about the lead users: (1) where to find the potential lead users, and (2) the indicators or the characteristics that the lead users may possess.

Step 2: Identifying Trends and Users' Needs

At this stage of the research, in-depth face-to-face interviews are conducted with the key stakeholders and other employees identified in step 1. The purpose was to identify a few important needs related trends. The topics of the interview included their opinion about the new services in terms of features, characteristics or benefits. For example, one key area of discussion was the changing landscape of the European payment and currency system. More and more countries are joining the Euro zone and as a result firms from those countries are insisting on Euro-based transactions. For example, many global firms are demanding a pan-European solution for their global trade activities. Regulatory agencies are also requiring firms to become Single Euro Payments Area (SEPA) complaint. The interview findings offered a list of emerging trends in the market as summarised in Table 1. After getting an overall picture of the trends and issues related to the NSD project, the all-important process of identifying and recruiting the lead users started.

Step 3: Identifying and Recruiting Lead Users

After having identified emerging trends,the research team conducted several brainstorming sessions with the stakeholders to identify and recruit lead users. Each members of the team suggested names of users they were familiar with. Based on the trends and lead user criteria discussed in the first two steps, 19 users were selected. The managers of IBC used networking process to identify these users. A preliminary survey of all the shortlisted 19 user firms was conducted to identify the right respondents from each user firms. The survey questions were designed to assess the roles and responsibilities of the respondents in their respective firms and to see whether the selected respondents were involved in making purchase decisions regarding services offered by IBC. To further probe respondents' fit within the definition and criteria of lead users, face to face discussions and interviews were conducted. For example, only those users are selected who feel the need for a new service and actively search for the means to satisfy their needs. Generally, they face the needs much before the bulk of the marketplace encounters those needs and expect relatively high benefits from obtaining a solution to their needs. Some of such users in the past had clearly demonstrated these characteristics. For example, a user firm not only recognised the need for a highly innovative service but also had provided a possible solution and blueprint for that service to IBC. In another instance, a user firm contacted the company and described the need for a new financial service and provided details of the service they wanted. Interestingly, they even informed the IBC's managers that they had thought of managing this service themselves without the involvement of a financial service organisation but decided against it because of a lack of expertise in their firm. The users were all involved in international business and commerce and had developed their own mechanisms for cross border payments systems. That is, they were not simply the recognised "opinion leaders' in their field, rather they were highly knowledgeable and had deep understanding of (a) important market and technical trends, and (b) leading edge applications of these emerging trends.After the completion of the screening process only 10 lead users who had the richest information to offer were invited to participate in the new service idea generation and concept development workshops.The details of the 10 respondents who participated in the research are summarised in Table 2.

Step 4: Developing the New Service Concepts

All the 10 selected lead users then joined the author and five IBC managers for several service concept development workshops. During the workshops several in-depth interviews with the lead users were conducted for data collection. These workshops covered five broad areas of inquiry: (a) characteristics or needs of users regarding the new service, (b) the problems they had with the current services and the solutions to fix those problems, (c) the latest trends in the market in regard to the service concepts, and (d) whether any of the lead users had actually developed or modified the service to solve their problems. Using an interview protocol each interview was conducted in an exploratory manner, focusing on each firm's need and interviewees' individual phenomenological interpretations of the needs. Care was taken to ensure that the interviews covered the topics of

Table 2: Detail of the User Firms and Respondents

No.	*Type of Customer Firms*	*Interviewees position title*	*No. of years in their firms*	*No. of years. Dealing with IBC*
1	Exporter of textile products	Finance Manager	9	7
2	Exporter of handicrafts	Chief Finance Officer	13	4
3	General export house	Finance Manager	6	4
4	Tea exporter	General Manager	9	3
5	Software firm	Vice President	7	4
6	Importer of cosmetics	Purchase Officer	5	3
7	Exporter of readymade garments	Finance Executive	6	2
8	Exporter of leather goods	Owner/Proprietor	12	8
9	Exporter of jute products	Account Officer	10	3
10	Diamond merchant and exporter	Owner/Proprietor	11	5

interest and that the respondents used their own words to describe the new service ideas and concepts. In order to generate fruitful discussions, several probe questions were posed to explore these four areas of inquiry. During the interviews the research team further probed the matter to see whether these users had taken initiatives to develop the new services themselves. During the interviews, several documents pertaining to IBC's previous efforts for idea generation and overall NSD were reviewed extensively. Participants jointly developed service concepts, evaluated the concepts and developed service delivery blueprints. Overall, the lead users provided cutting age information for several new services concepts. At the end of idea generation workshops, a total of 11 new service ideas were developed. Although this was an encouraging result, it was important to ensure that at least one of these ideas would eventually be converted into real service concept acceptable to a much larger market. Therefore, the next step was to analyse the new service ideas and explore their marketability further.

Step 5: Analysing the Service Concepts

Since the lead users are not the same as routine users, it is important to test the service concepts developed by the lead users to validate their overall commercial potential. Routine users are good at offering corroboratory information (Magnusson, 2009), therefore the next step in the IBC study was to interview several routine users to evaluate the 11 new service concepts that were developed during the idea generation workshops. For this purpose a sample of 48 routine users was recruited. They reviewed the blueprints of new service delivery, noted the strengths and weaknesses of the service concepts and commented on the cost and fees structure of the new services. The research team also developed a mock service delivery process and asked these potential users to react to the service delivery, suggest fail points and weaknesses. The majority of the users liked the service concepts developed during the workshops because the new service concepts were highly innovative and something that would work very well in the market. They also showed their willingness to pay higher bank fees and charges for these offerings, relative to the existing services in the market. Armed with customers input related to the likes and dislikes of the service concepts the research team projected the sales and new service adoption rates. Finally, a probe of the intention of the routine users for adoptions of the new services was conducted, with a question using 5-point bipolar scale anchored by "will definitely adopt the service" (5) and "not adopt the service at all (1). The new services with the threshold score of 3 and below were discarded from further consideration. After the completion of the above processes, 7 new services ideas were discarded because they were highly customised to the needs of a few lead users and did not meet the expectations of the routine customers. Thus only 4 new service ideas survived and moved on to the design phase of the NSD process[1].

Step 6: Evaluation of the Process

After conducting idea generation workshops with lead users and testing the service concepts on ordinary and routine users, the research team conducted a group discussion with the managers of IBC and other stakeholders. The purpose was to judge the relevancy of the lead user method for future NSD initiatives. The stakeholders and other employees were asked to rate the relevance on a five-point scale with 1 (least effective) and 5 (most effective). The mean rating was 4.25. In this regard one manager noted: "*All users are important but the leading-edge users have much more to offer than others, because they have a precise understanding of their own needs and their own markets and have a willingness to work with others as development partners and share expertise*". Another key advantage noted was that the process used during the research improved the teamwork for NSD. Overall, IBC gained an enormous understanding of both lead and routine users and the unique dynamics of service innovation. The managers also reported that the service concepts were developed into a real entity in a much shorter period of time, when compared with previous NSD development efforts without the lead users. The process may not have solved all the problems but it has gained valuable insights into the process of user interaction and NSD-insight that will likely provide IBC a competitive advantage over its competitors.

Theoretical Implications

Historically, the new product and service failure rate has been rather high (which are approximately 40-75%; see Stevens & Burley, 2003). Scholars and researchers have suggested a number of mechanisms for improving the success rate of new services. User interaction is one such means for developing successful new services and products as reported both in theoretical literature (e.g.,

Brown & Eisenhardt, 1995; Griffin & Hauser, 1996) and empirical studies (e.g., Henard & Szymanski, 2001; Alam, 2002; de Brentani, 1995). However, most firms look for the information from obvious and easy places such as obtaining inputs from normal or routine users because they are readily available via their day to day contacts with a firm's front line employees (Simonson, 1993; Johne, 1994). Evidently, scholars have suggested interaction with lead users for they provide ideas for innovative new services (Lillien *et al*., 2002). However, the literature is not explicit on how to interact with the lead users for NSD because it has focused mainly on tangible product innovations (Herstatt & von Hippel, 1992; Urban & von Hippel, 1988). This research goes beyond current work on lead user interaction that has mainly focused on tangible products. Service innovation is different from tangible product because services are characterised by intangibility, heterogeneity, perishability, and inseparability (e.g. Lovelock, 1983; Shostack, 1977). Although there is a consensus among researchers on these key differences, the extant literature on lead user interaction and innovation has been biased heavily toward tangible products. Thus, this research attempts to explicate and validate the concept of lead users specifically for new services. The findings of this research may help further advance the literature of service innovation and the lead user interaction practices in service firms.

Managerial Implications

Overall the results of this research are very encouraging. For example, before lead user method was brought into the company, IBC was experiencing a lack of growth in one of its core services: payments for cross border transactions. To make the organic growth strategy work, NSD and customer retention had to improve dramatically. The lead user method applied in this research resulted in four innovative new service ideas that could solve company's problem to some extent. Therefore this research answered the challenges of developing innovative new services. IBC has gained important benefits from its lead user initiative because this exercise has generated a surge of creative thinking of service innovation as evidenced from the number of innovative new service ideas generated during the lead user workshops.This research clearly shows how a service firm should interact with the lead users and obtain key input and information for its innovation projects. Service managers may take note of this approach and apply it to their NSD programs.

In summary, the findings of this research suggest that (a) interaction with lead users will lead to superior and successful innovations because the lead users are a rich source of new service ideas, (b) lead users already exist in India as a skilled resource and only need to be identified, (c) lead users are willing to work with the service producers for developing new service ideas if the managers are able to demonstrate that the users are important partners in a firm's strategy of user interaction, (d) managers should allow lead users a greater say in setting the terms of interaction with the firm, and (e) the interaction with lead users improves teamwork and is significantly faster at developing new services.

Limitations and Future Research Directions

Although, case analysis presented in this research produced desired result by offering a vivid description of lead user interaction in NSD, the generality of this result must be determined by further studies. As is typical in studies of this nature, the single case design constraints the generalizability of interpretations. Nevertheless, a detailed and comprehensive analysis of the case mitigates this circumstance and that this study has implications for the NSD and user interaction literature and for further research. An avenue of future research is to conduct multiple case studies that will facilitate cross-case analysis. Second, this study focuses on new services that are characterised by intangibility. It is possible that a different pattern of findings may emerge in product-based research where tangibility plays a major role. Third, the study context is only one emerging country, India. More research is needed in different country settings because a different pattern of findings may emerge in other countries and regions. Finally this research investigates only one, albeit important service industry, which raises the issue of generalisability. The financial services industry is unique in many ways but it is also possible to make at least some tentative generalisations from financial services to other service industries. The objective of this research is to develop a deeper understanding of the lead user process that specifically relates to NSD. Indeed, this is crucial to improving the state of the art of user interaction and service innovation strategies and further research in this area is highly encouraged.

End Note

1. One of the conditions of the IBC's participation in this research was that any specific details of the new services and the names of the participating user firms would not be revealed. Therefore, we could provide any details of the new services developed in this research.

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