The Influence of New Product Launch Strategy on Bank's Profitability

Evans Frimpong-Manso

College of Distance Education, University of cape Coast, cape Coast, Ghana
Corresponding Author: Evans Frimpong-Manso

Abstract: *The study examined the influence of new product launch strategy on bank's profitability, focusing on HFC bank, Cape Coast. Descriptive research design was used. The census method was used to capture all the 23 staff while the random number method of simple random sampling procedure was used to select 57 premium customers. Data were collected using questionnaire. The data were analysed using multiple regression analysis. The study established that the new product launch strategies of the bank and its service quality relate positively to the bank's profitability. However, new product launch strategies alone do not strongly predict the bank's high profitability. It does so only if staff and customers perceive the products and services provided by the bank in positive terms. It is, therefore, recommended that management should ensure that the bank's product launch strategies are improved to increase its customer base.*
Key Words: *Product launch, profitability, Extrinsic value drivers, Intrinsic value drivers*

I. Introduction

In a bid to stay competitive in the banking industry and engineer quality service and innovative products, banks and other financial institutions such as Home Finance Company (HFC) bank must adopt new product launch management model. This will help the bank edge past its competitors regardless of the many operational challenges it face. This assertion is in line with the submissions of Yoon and Lilien (2012) and Dorward (2013) who posit that when banks appreciate the role of new product launch and advertising models in the market and institute appropriate structures, they gain more market share hence realising good sales performance and growth which in the long run boost their profitability.

Furthermore, successful financial institutions are seen as those who are market oriented. They know who their target market is, what the target market's requirements and needs are and how to meet these profitably. Hence, they position the business in such a way as to differentiate it from competitors to ensure profitability and a competitive advantage through effective product launch management model (Farrell & Saloner, 2012). Thus the effectiveness of the product launch management model adapted by HFC bank with regard to its target markets as well as the positioning of the bank is questionable. Then how effective are new product launch management model adopted or adapted by the bank leads to increase in the bank's profitability?

Based on the scope of the problem discussed, the study appreciates that if HFC bank can address some of its challenges specifically arising from the launching of new products, targeting and positioning and the extended marketing mix elements, there is potential for the bank to increase its profitability and achieve meaningful growth. The researcher is, therefore, motivated to study and as well address the influence of new product launch management model adapted by HFC bank on the bank's profitability, focusing on Cape Coast branch.

Objectives of the study
The main objective of the study was to investigate the influence of new product launch management model on bank's profitability, focusing on HFC bank, Cape Coast. The specific objectives were to:
1. Examine the relationships between new product launch strategies, service quality and the bank's profitability.
2. Examine the influence of new product launch management model on the bank's profitability.

Significance of the study
The service sector, especially the financial industry has become such a vital component of Ghana's economy. Therefore, to guarantee its success, there is the need for continuous research and planning to generate enough information on the sector locally rather than continuous dependence on research works of others which are difficult to apply in our cultural context. HFC bank and other financial institutions in Ghana will have the

opportunity to use the findings to re-strategize to increase their market share by attracting more clients. Also, this work will no doubt enrich the Ghanaian financial industry environment in general, particularly that of HFC bank, on how important new product launch management model leads to high profitability.

Delimitation of the study

The study was delimited to HFC bank's new product launch management model and it influence on the bank's profitability. In relation to profitability, it focused on return on asset (ROA), return on investment (ROI), and return on sales (ROS). The study was further delimited to the premium customers of HFC bank, Cape Coast and staff of the bank.

II.   Literature Review

The current study attempts to fill an important gap in the product launch strategy literature. In recent years, many marketing scholars have expressed a considerable degree of interest in the commercialisation of high-tech products, defined as those based on advanced technology platforms. A subset of these is based on information and communications technologies, exhibit network effects. A topic of concern to both academics and practitioners is the issue of whether the launch strategies prescribed based on previous work and conventional wisdom are appropriate for new product launch strategies of banks (Ali, Krapfel & LaBahn, 2002). From a theoretical perspective, it was found that new product launch strategies in the banking sector succeed in a completely different way.

Building on the current launch strategy literature, the conceptual framework presented in Figure 1 extends our view of launch strategy decisions in a new direction, to incorporate the economics of new product launch effects. The study draw from economic theory to examine conceptually how new product launch strategies influence consumption behaviour, and affect launch strategy for superior new product performance. In contrast to non-bank product, the success of banks product launch strategies depends not only on the product's intrinsic value, based on its features, but also on its extrinsic value, derived from the size of the market and its connection to other users and complementary products (Carpenter, Glazer & Nakamoto, 2009).

This implies, then, that conventional wisdom that focuses on increasing the intrinsic product value alone is insufficient to win in the context of new product launch effects. Instead, the growth of the installed base is the first-priority performance objective in the short term. It is a large installed base that attracts an extensive supply of complementary/compatible products, thus stimulating positive feedback effects between direct and indirect product launch effects and enabling a bank's product to predict the bank's customer base even, on occasion, with inferior technology (Dickson, 2011; Rosenbloom, 2013).

The characteristics of banks new product launch strategies cause the market to 'tip' toward one system "the tendency of one system to pull away from its rivals in popularity once it has gained an initial edge" (Katz & Shapiro, 2011: 425). Once a network effects product attracts a sufficient installed base and becomes the dominant design, it will lock in the market and enjoy long-term success (e.g., higher profit margins and greater customer satisfaction). Furthermore, in the banking industry, being first to the market is advantageous, but the use of appropriate launch strategies to establish the installed base (which increases the extrinsic value of the product) may override the impact of entry timing on profitability. Being first to the market is not sufficient, in itself, to win in a network effects context. Pioneers with an insufficient installed base may lose market share to early followers who rapidly penetrate the market and establish an overwhelming installed base (Lilly & Krishnan, 2012).

The groundwork is laid in this conceptual model to begin empirical testing of the influence of new product launch strategies on bank's profitability. An important contribution of this work is the thorough description of HFC bank's product launch strategies from a marketing perspective. Departing from Arthur's (2009) Path Dependency theory, the study suggests that the lock-in phenomenon is more a strategic issue than just an occurrence that happens via small historical events. Banks and other financial institutions should take "proactive" actions to establish a sufficient installed base to influence customer preferences rather than let the accidental historical events decide the dominance of a new product. Our consideration of the nature of market competition and buyer behaviour leads us to believe that the factors under the control of a marketing or product manager are even more critical to a new product launch strategies and the product's success than they may be for non-bank effects products.

Conceptual framework

The management model was adapted from the works of Dorward (2013) and Horsky (2013). The dependent variable for this conceptual framework was HFC bank's current profitability which was measured using ROI, ROA and ROS while the adapted new product launch management model of the bank constituted the

independent variables. Perceive quality service of HFC bank served as intervening variable. The conceptual framework is illustrated in Figure 1.
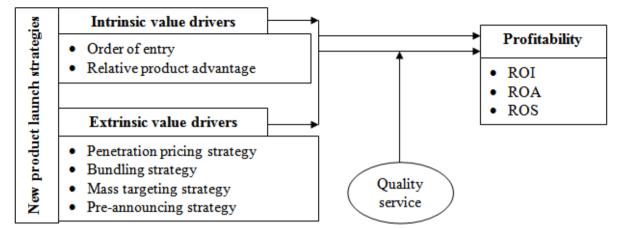

Figure 1: Conceptual framework of the study

As depicted in Figure 1, the general argument of this study was that, if HFC bank's new product launch management model which was grouped into intrinsic and extrinsic value drivers are perceive positively, the bank's profitability will increase significantly. However, this influence is more boosted if key customers of the bank and the staff perceive HFC bank's service quality positively. Therefore, perceive service quality of HFC bank will help in igniting the influence the bank's new product launch management model have on it profitability.

III. Methodology

The descriptive survey design was deemed the most appropriate research design to use. The accessible population for the study was all staff and premium customers of HFC bank, Cape Coast. According to HFC Bank Ghana Limited – Cape Coast Brach (2015), the bank has 23 staff and thousands of customers. However, those customers classified as premium customers were 117 in number. The census method was used to capture all the staff while the random number method of simple random sampling technique was used to select 57 premium customers based on the recommendation of Saunders, Lewis and Thornhill (2007) that in a descriptive study a sample size of five to ten percent (5% - 10%) of the population is appropriate. Therefore, selecting 57 key customers out of 117 was appropriate and representative enough. In all, 80 respondents were captured for the study. This study used self-administered questionnaire which was validated and also pre-tested.

Data collection procedure and analysis

Prior to the administration of the questionnaire, an informal familiarisation visit was made to the study area that is HFC Bank Ghana Limited – Cape Coast for the confirmation of the number of staff and premium customers, and to seek for more information concerning the bank. The branch manager of the bank was written to for permission to carry out the study in the bank. The questionnaires were self-administered, but with some support from the heads and some senior staff of the bank. In order not to disturb the working hours of respondents, the researcher met with all the selected heads in each unit or division to explain the purpose of the study, to seek for their consent to participate in the study and to assure them of confidentiality. With regard to the premium customers, the questionnaires were given to them through the management of the bank which after completion, they return then to the management who then gave them to the researcher.

With the help of the Predictive Analytic Software (PASW) Version 18.0, the Test Analytics for Surveys (TAfS) was used for coding and analysing the data. Both descriptive and inferential statistical tools were used in analysing the data. Based on the review and the objectives of the study, the following hypotheses were formulated and tested.

H^1_0: There is no statistically significant positive relationship between new product launch strategies and the bank's profitability.

H^2_0: The new product launch strategies of the bank do not influence significantly the profitability of the bank.

Pearson product moment correlation was used to analyse the data regarding the first hypothesis while hierarchical linear multiple regression was used for the second hypothesis. The hierarchical linear multiple regression equations (model or equation 1 & 2) used for the study was:

$$P_1 = \beta_0 + \beta_1 IVD_1 + \beta_2 IVD_2 + \beta_3 EVD_1 + \beta_4 EVD_2 + \beta_5 EVD_3 + \beta_6 EVD_4 + \varepsilon$$

$$P_2 = \beta_0 + \beta_1 IVD_1 + \beta_2 IVD_2 + \beta_3 EVD_1 + \beta_4 EVD_2 + \beta_5 EVD_3 + \beta_6 EVD_4 + \beta_7 QS + \varepsilon$$

Where: QS = Quality service, IVD = Intrinsic value drivers, EVD = Extrinsic value drivers, P = Profitability
β_0 = is the constant or intercept.

$\beta_{1...} \beta_7$ = coefficient of regression which measures how strong each independent variable influence the

dependent variable.
The meaning of the module is that $\beta_1 IVD_1 + \beta_2 IVD_2 + \beta_3 EVD_1 + \beta_4 EVD_2 + \beta_5 EVD_3 + \beta_6 EVD_4$ influence

the bank's high profitability but their predictability potency or contribution to the dependent variable would be more significant when mediated by quality service ($\beta_7 QS$).

IV.   Results And Discussion

The first specific objective of the study focused on the associations between the bank's new product launch strategies, service quality and its profitability. Multiple items were pooled together to form each of the main variables. The Pearson product moment correlation was used to examine the assume associations between the variables.

Table 1: Relationships between new products launch strategies, service quality and profitability of the bank

Variables	The bank's profitability	
	Correlation coefficient (r)	p-values
New product launch strategies	0.33*	0.041
Service quality	0.71**	0.000

Source: Field Data, December 2016   **p<.01   *p<0.05   (N = 80)

As contained in Table 1, new product launch strategies and service quality of the bank were positively related to the bank's profitability. All the relationships were statistically significant. New product launch strategies of the bank (r = 0.33, p = 0.041) and the bank's service quality (r = 0.71, p = 0.000) were statistically significant and positively correlated with its profitability. This means that the more the bank uses the various new product launch strategies the higher its profitability will be boosted. Similarly, the higher customers perceived the bank's service strongly and high the more it will increase its profitability. Based on the findings the study rejects the first hypothesis. The findings are in line with the submission of Yoon and Lilien (2012) who aver that the most successful launch strategies used by banks have increased the bank's profitability drastically. Yoon and Lilien (2012) found in their study that there was a strong and positive relationship between launch strategy and new product profitability.

The last objective of the study examines the direct influence of new product launch strategies on the bank's profitability. Even though researchers have commented a lot on the impact of product launch strategies on organisational profitability, however, the literature fails to show clear relationships between the variables and the contribution of the variables to bank's profitability, especially within the Ghanaian cultural context. The hierarchical linear multiple regression analysis was used to test the hypothesis. The results are presented, based on the conceptual framework of the study, in Table 2.

Model I: $P_1 = \beta_0 + \beta_1 IVD_1 + \beta_2 IVD_2 + \beta_3 EVD_1 + \beta_4 EVD_2 + \beta_5 EVD_3 + \beta_6 EVD_4 + \varepsilon$

Model II: $P_2 = \beta_0 + \beta_1 IVD_1 + \beta_2 IVD_2 + \beta_3 EVD_1 + \beta_4 EVD_2 + \beta_5 EVD_3 + \beta_6 EVD_4 + \beta_7 QS + \varepsilon$

Table 2: Influence of new product launch strategies on the bank's profitability

Variables	Model I			Model II		
	Beta (β)	SE	Sig.	Beta (β)	SE	Sig.
Intrinsic value drivers	0.35*	0.04	0.02	0.29**	0.06	0.00
Extrinsic value drivers	0.58**	0.06	0.00	0.37*	0.04	0.03
Service quality				0.59**	0.04	0.00
Constant	1.139			1.012		
R	0.521			0.891		
R Square	0.343			0.682		
Adjusted R Square	0.339			0.675		

Dependent Variable = Bank's profitability **$p<0.01$ *$p<0.05$ (N = 80)
Source: Field Data, 2016 Where SE = standard error

As depicted in Table 2, the multiple regression analysis involved testing of the hypothesis that the various drivers of new product launch strategies of the HFC bank Cape Coast do not directly predict the bank's profitability. The two drivers of the bank's new product launch strategies were entered as independent variables in the regression model and they contributed significantly to the bank's profitability. The Table further shows that extrinsic value drivers (β = 0.58 (0.06), p = 0.00) contributes more to the bank's profitability than intrinsic value drivers (β = 0.35 (0.04), p = 0.02). This means that the bank's effective penetration pricing strategy, its focus on the masses and its pre-announcement strategy when launching a new product is more significant with regard to the bank's profitability than the orderly way of doing things and the relative advantage of its products in the market.

In the second model, service quality was entered into the model. The theory here is that the bank's new product launch strategies do not predict strongly its profitability and that they do so when the service quality of the bank is perceived strongly in positive terms by the customers. When service quality variable was entered into the equation, the beta co-efficient of the independent variables shrank. However, all the variables were still significant. The resultant shrinkage and significance in the beta co-efficient mean that the bank's new product launch strategies do not strongly influence its profitability. They do so only when the services delivered by the bank with regard to its products are perceived strongly in positive terms by the customers and staff.

However, it is important to observe that the unique proportional contribution of intrinsic and extrinsic value drivers of new product launch strategies of the bank and its service quality to the dependent variable that is the bank's profitability was 0.682 with an adjusted R^2 of 0.675. This means that the bank's new product launch strategies and service quality were able to predict or explain about 67 percent of the variance in the bank's profitability. It therefore means that besides these two main variables identified, other variables not yet in the model have a chance of predicting about 33 percent to the bank's profitability.

The significant increase with regard to the unique proportional contribution of the new product launch strategies of the bank and its service quality mean that when the bank's service is perceived strongly in positive terms, this situation will in turn boost the predictability of the bank's new product launch strategies on the bank's profitability. Based on the findings the study therefore rejects the hypothesis that the new product launch strategies of the bank do not influence significantly the profitability of the bank. The findings corroborate with that of Ali et al. (2002) who indicated that the delivery of high service quality coupled with an organisation's product launch strategies strengthens corporate brands and contributes to consumer satisfaction which in turn increases the organisation's profitability.

V.   Conclusions

It can be concluded from the findings pertaining to this study that the various forms of new product launch strategies adapted by the HFC bank, Cape Coast are generally accepted by staff and premium customers. New product launch strategies do not influence or predict the bank's profitability strongly. It does so only if it boosts the service quality of the bank. If the new product launch strategies adapted by the bank is able to increase the service quality of the bank, then eventually the bank's profitability will increase as expected. It is therefore, necessary for the HFC bank, Cape Coast to adapt appropriate new product launch strategies, as this will make staff and customers perceive the service quality of the bank positively which in the long run will lead to an increase in the bank's profitability.

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