



▶ **Winning Customers with Simplicity**

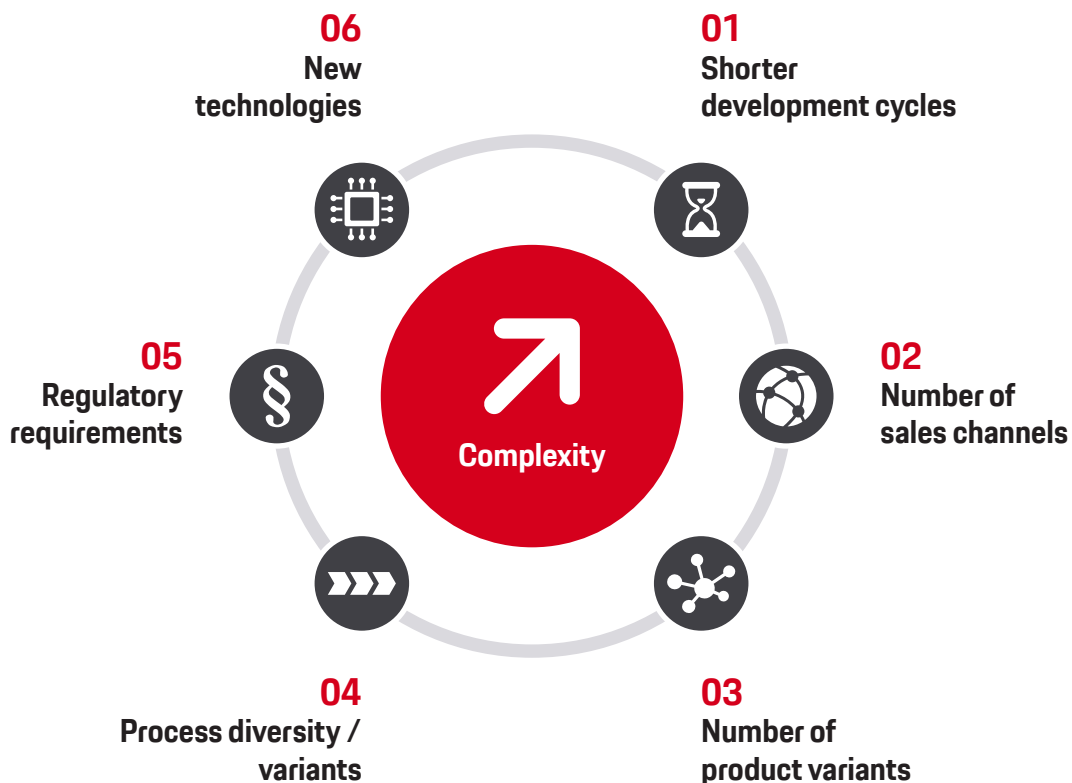
How financial service providers are
reducing product-driven complexity

Introduction

Over the last ten years most financial service companies have been continuously expanding their range of products and services. These adaptations to overall market developments are leading to greater levels of complexity in financial products and processes, which in turn require greater levels of attention and resources to control and manage. But complexity has risen not only in the products themselves. In the face of customer demands and powered by new technologies, prompt and sometimes provisional solutions have been created under time pressure: as a result, the complexity of the internal organization and processes increases, requiring even greater resources. In this paper, ten success factors are presented which help organizations to overcome product driven complexity.

Financial Service Providers currently face rising complexity in their products, processes and organization. This trend not only originated from new regulatory policies such as DSGVO, MaRisk, MiFID II or PSD II. Furthermore, additional external

and internal causes lead to overly complex coordination and management activities. The following figure shows six causes we frequently observed at client organizations.



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Figure 1. Complexity drivers at financial service companies

The automotive industry went through a similar development in the early 1990s. Today this sector succeeds in efficiently orchestrating a wide spectrum of different models and accessories. Modular product design, mod-

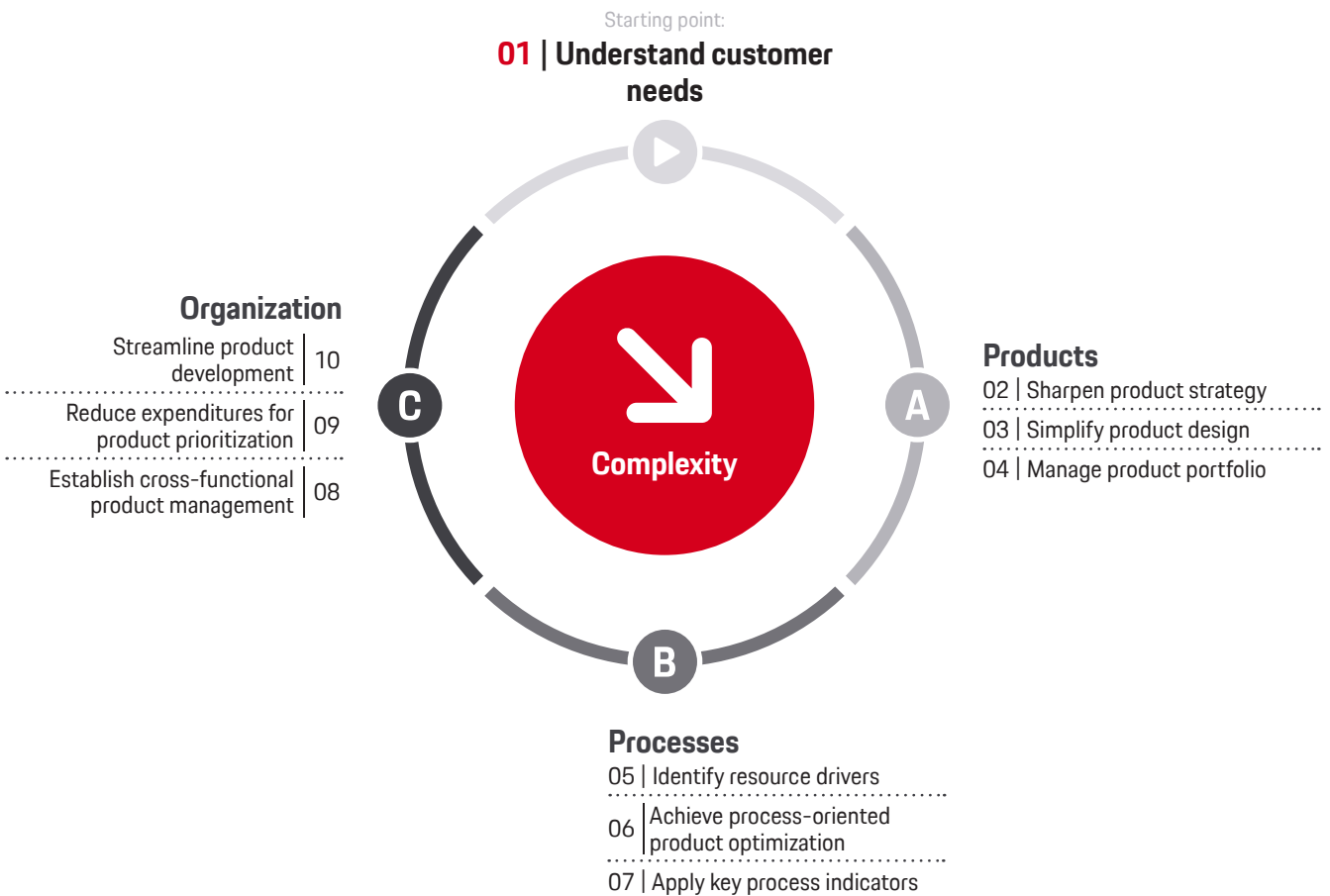
el range organization, and standardization “on a single production line” are some of the key ideas that can also be applied to services provided by the financial sector.

“On the one hand, everything has become more complex. On the other, we now have simpler and more consistent development processes. These two factors balance each other out. And that’s how we achieve our aim: offering our customers greater variety without additional expenditure.” (Michael Schätzle, Head of Car Body Development at Porsche)¹

Ten Levers for Mastering Complexity

A guiding principle for financial service companies should consist of systematically reducing complexity both in-house and for their customers. This should be done without significantly restricting their performance range but still lowering costs and freeing up resources to create space for future growth and to master the transformation in tech-

nology. This white paper addresses these challenges and recommends 10 sustainable measures for complexity reduction that have proven themselves in multiple projects with our clients from the financial services industry. The following figure depicts these measures, grouped into three key fields of action.



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Figure 2. Three fields of action with Ten Levers for Mastering Complexity

¹ <https://newsroom.porsche.com/de/2019/technik/porsche-engineering-derivat-entwicklung-cayenne-coupe-17976.html>

01 Understand customer needs

Customer demand is the starting point in all attempts to reduce complexity. Many companies consider the customer's perspective in connection with specific topics, yet do not see the interaction of product range, advisory media, and sales aids from the point of view of their customers or their own sales department. Moreover, they often do not sufficiently differentiate the products on offer; multiple products or services are often provided for a single customer need. In many cases this leads to uncertainty, even within the company's own sales department.

It is important to have a clear understanding of customer needs before attempting to reduce complexity in products,

processes, and organization. Which products and processes do the customers need? Which products and services do not provide clear customer benefits? How can customers be guided efficiently through the range of products and services at the point of sale, and how can the right solutions be identified for their needs? To better understand their customers in the future, companies can gain knowledge of actual customer needs by analyzing existing customer data, conduct customer focus groups, or if relevant, by means of dealer surveys. Readers are also referred at this juncture to Porsche Consulting's white paper "Thinking from the Customer's Point of View."

02 Sharpen product strategy

Product strategy is the basis for a market-oriented and efficient product range. Only a few companies succeed in designing it to provide precise and practicable guidelines for product management. The product strategy has to be defined in such a way that it can serve as the common thread for the operational design, maintenance, and further development

of the product portfolio – without any need for "translation". Practicable product strategies are characterized, on the one hand, by a focus on the essentials, and on the other, by sufficiently precise and practical product management instructions. Here are some examples as a basis for companies to formulate their own:

▶ **CUSTOMER BENEFIT** Clearly define the product's benefit for customers. Which customer need does it satisfy?

▶ **DIFFERENTIATION** Clearly differentiate the products in a product range with respect to performance and price. "Similar" products with only minor differences from the customer's point of view should be avoided. How does this product differ from other products from the customer's perspective?

▶ **PRODUCT AIM** Define a clear aim for each product from the perspective of the company. What expectations does the company have for the product with respect to revenue, sales figures, cross-selling, and the like?

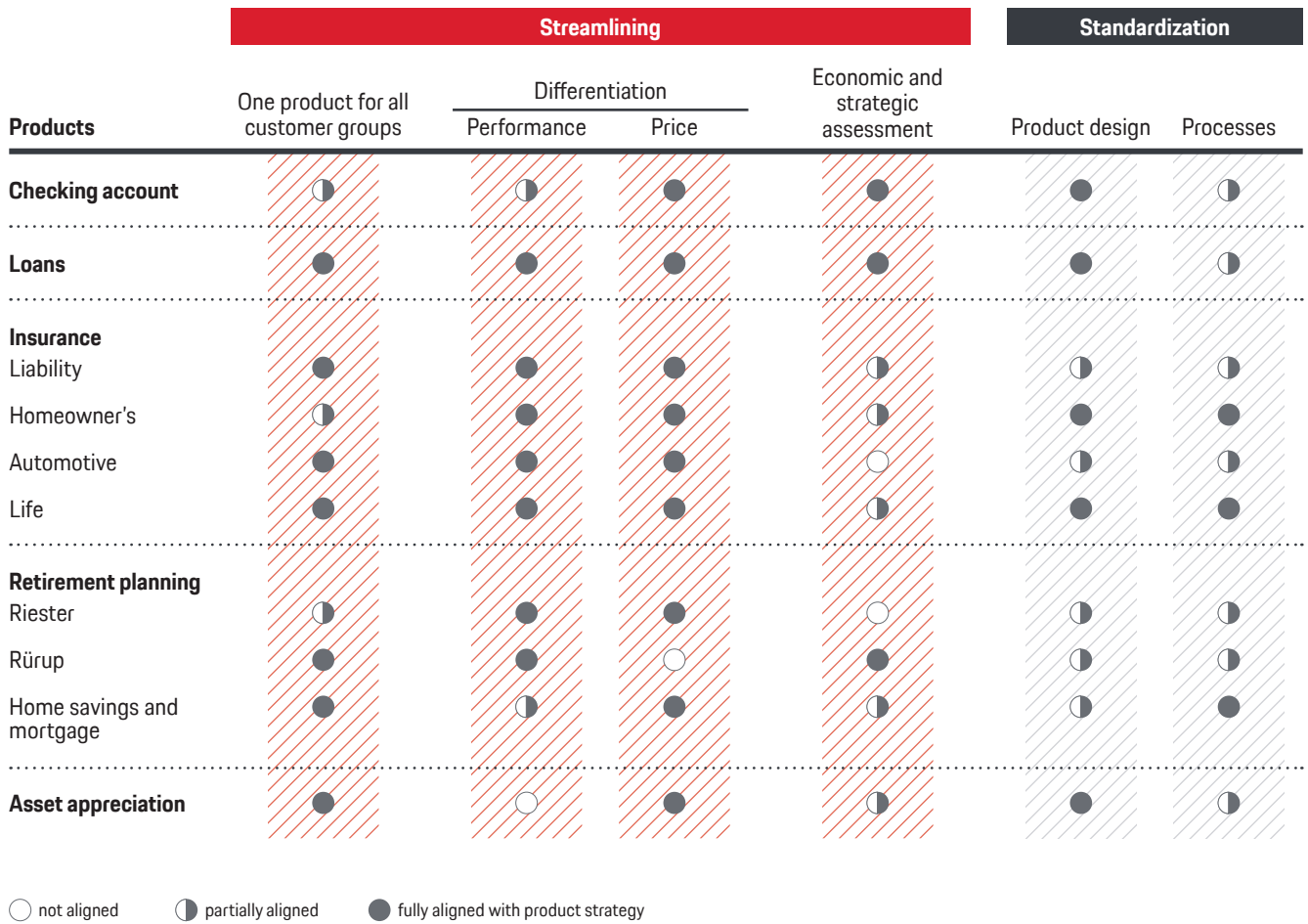
▶ **STANDARDIZATION** Design the products in such a way that they can be used as much as possible for all customer groups, sales partners, sales channels, and elsewhere. Are there different products for different customer groups, sales partners, or sales channels that can be standardized?

03 Simplify product design

The first step here consists of evaluating and then streamlining the product range in accordance with the guiding principles of the product strategy. The second step consists of designing the remaining products in modular ways—that is, the components of different products that seem identical to customers should be standardized above and beyond the products themselves. And to the greatest extent possible, contracts, general terms and conditions, work instructions, and transaction processes should be

standardized beyond the products themselves, compiled into identical modules, and handled by means of congruent processes. Individual special agreements should be avoided and instead be converted to standard product modules that can be booked in connection with the actual product.

The same logic applied to analyzing and adjusting the product range, should also be applied to the service range for customers.



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Figure 3. FIT/GAP analysis of an existing product portfolio with the newly defined product strategy (customer example)

04 Manage product portfolio

Attempts to establish consistent and comprehensive management of a product portfolio often lack a solid foundation of key indicators. Only a few companies actually succeed in converting the strategic value of products or the cross-selling potential of individual product variants into key indicators and measuring them. Even simple key indicators like sales figures or concrete economic benefit are usually not present on the level of individual product variants. And if these key indicators do exist, they are often not used or only used in certain situations. Key indicators are seldom used to systematically derive measures to further develop a product portfolio.

Profitability of individual product variants is a key indicator for managing product portfolios. "What are the concrete economic effects of eliminating this product variant?" is a question a company's product profitability calculation cannot always answer. Reasons for this include an inability to ascribe costs clearly or to link them with current cost and revenue rates. These approaches tend to disregard changes expected from current process improvements, or positions in profit-and-loss calculations are allocated to products that do not really affect individual product profitability (e.g., forming and dissolving reserves).

One must first determine which key indicators will serve as the basis for managing the product portfolio. Successful companies establish a concise but reliable framework of key indicators as the foundation for managing their portfolios. "Soft" factors like a product's strategic value should be objectified as far as possible and converted to

key indicators. Product profitability calculations should be further developed as key indicators in such a way that they show the actual economic effects of eliminating or further developing specific products or product variants.

05 Identify resource drivers

The key to efficiently optimizing a product's operational processes lies in identifying the main resource drivers. There is often a lack of reliable knowledge about what drives expenditures in handling products.

Functional analyses can be used to identify resource drivers in targeted ways. The first step consists of identifying the main process steps and driver magnitudes (e.g., volumes as well as the number of processed product or product variants, of special agreements, and of processes with incorrect data entry). Then these process steps can be correlated with the respective resources invested by each organizational unit. These results allow the main drivers across all processes to be found and to serve as the starting point for optimizing processes and restructuring products in targeted, process-oriented ways. Reasons for greater expenditure (e.g., lack of automation, inferior data quality, and special agreements that require manual processing) can now be specifically eliminated to optimize the processes.

It is important to anchor the functional analysis in the company as a regularly deployed instrument for generating transparency and as a starting point for process optimization. This ensures the creation of a sustainable benefit for the company.

06 Achieve process-oriented product optimization

Although many processes are often optimized within certain units or even end to end, the question of how individual financial products and services should be designed to require as little processing as possible has thus far hardly been examined in a systematic way. Here too the automotive industry can serve as a model: production is integrated into the product development process from the outset and can thus reveal early on which product designs will lead to disproportionate expenditure during production (see measure 08 "Establish cross-departmental product management"). In addition, product development processes should be revised using insights gained from the functional

analysis. Assess whether and how resource drivers derived from product design can be eliminated (e.g., faulty product hierarchies, excessive variants, poor data quality).

Process-oriented product optimization requires achieving the proper balance between customer perspective and process perspective. Can individual product features whose development leads to excessive expenditure be eliminated without significantly decreasing benefits to the customer? Can the product design be adjusted to require less expenditure in development but still meet customer needs?

07 Apply key process indicators

Most financial service companies already have a series of key process indicators in place. However, like those used to manage product portfolios, some are not sound enough and the results are therefore inadequate or cannot be systematically derived.

Key process indicators should be used for the dimensions of quality, cost, and delivery reliability. A concise but reliably established framework for them should be defined. We recommend presenting the key indicators visually in such

a way that their main content is immediately evident, for example in the form of a cockpit.

Significant factors for successful control based on key indicators include a clear definition of who is responsible for both providing key indicators and deriving results and measures for improvement. This will ensure that the indicators are used systematically and corresponding potential is determined.



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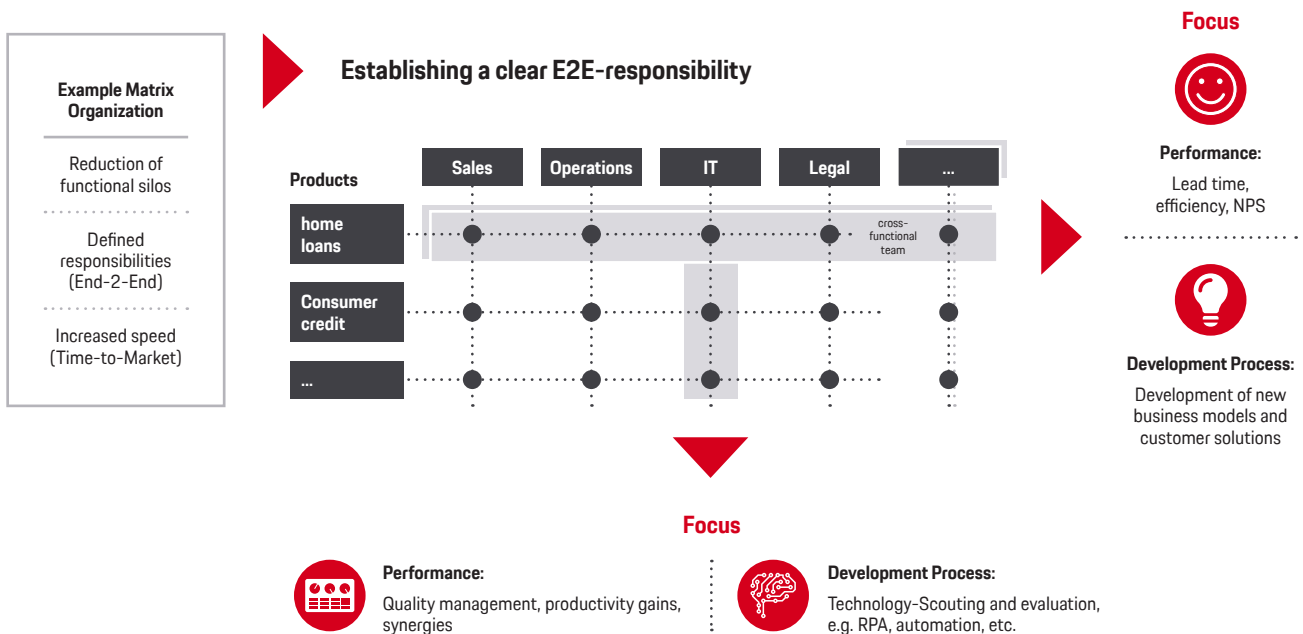
Figure 4. Examples of key process indicators in three dimensions

08 Establish cross-functional product management

Only a few financial service companies have progressed to the extent of effectively organizing responsibility for product development and maintenance on an interdepartmental basis. The respective responsibilities for various aspects of a product (e.g., product design, operational processes, sales figures, and profitability) are generally distributed among different departments, whose collaboration can be improved.

One organizational principle common in the automotive industry that compiles interdepartmental responsibility across

all aspects of a product's development and maintenance is the product line organization. While functional responsibility ensures trans-product consistency across all specialized areas (e.g., operations and IT), product line organization owns overarching responsibility for the product line and ensures punctual product development with minimal expenditure. In addition, product line organizations bears responsibility for the product's further development, sales figures, and profitability during its product lifecycle.



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Figure 5. Cross-functional structure of product management

Furthermore, collaboration between individual departments should be converted from a sequential to an agile mode of work. Product developments still take place too often in a temporal sequence and in different departmental silos. Each department delivers the necessary result on a step-by-step basis. This not only slows the product creation process but also means that some key input flows into the development process at too late a point in time. That in turn can require large-scale adjustments during or at the end of the development process. There is also a danger of integrating the operational units too late in the development process.

Switching to an agile mode ensures a comprehensive approach to product development right from the start. Complexity drivers in product handling, in IT systems at sales work stations, or in price calculations are identified early on and can be avoided already in product development. The degree of agility can vary here from company to company and from product to product.

One example from the banking world is ING-DiBa AG², which is currently converting its entire organization to an agile form of work. Whether the best solution is to convert the entire organization to an agile mode or only certain teams working on complex products on a temporary basis depends on the starting situation of the respective organization. For more information, readers are referred to Porsche Consulting's studies on "Agile in a Complex World" and "Innovative Working Atmosphere."

09 Reduce expenditures for product prioritization

A major resource driver in product development is the large number of requirements "tipped into" the prioritization process. The plethora of ideas and concepts requires a great deal of time and effort to coordinate, detail, specify, and assess, without ultimately being implemented.

Simple measures help prevent investing too much unnecessary effort into product prioritization and coordination committees. Before starting concrete product development work, clearly define what additional customer benefit the product will offer beyond the current product portfolio and what actual need there is in terms of the market. In addition, the financial objectives (e.g. increasing revenue and enhancing customer satisfaction) should be clearly quantified. If no clear answers can be given, products should not be put into the "product development pipeline".

Finally, complexity in these decisional processes can be further reduced if ad-hoc requirements are prevented from bypassing the actual processes and committees. As experience has shown that this leads to confusion and uncertainty on the part of everyone involved, combined with increased efforts in coordination.

10 Streamline product development

An agile, interdepartmental structure for product organization is a key prerequisite for streamlining the product-development and maintenance processes. But agility only leads to success when the interdepartmental approach is supplemented by a clear process with decisional points. The original requirements are often changed during the product development process. Clearly defined specification standards, coordination rounds, and "freeze points" for defining the final requirements are therefore needed. In addition to agility, firm compliance with development phases and standards is crucial.

Furthermore, multiple simultaneous releases should be avoided. This increases the complexity and resources needed for individual projects. A sustainably lean product development process can be implemented when its team is able to concentrate specifically on a single release.

² <https://www.ing.de/ueber-uns/menschen/agile-bank/>

Conclusion

The measures described in this white paper can help financial service companies reduce complexity in their products, processes, and organization, thereby becoming simpler and more streamlined. However, the levers presented here

should not all be applied at once but rather at a speed that makes sense for the individual company. The suitable pace can be quickly determined in a preliminary analysis of the organization's degree of complexity.

Further reading



Agile in a
Complex World



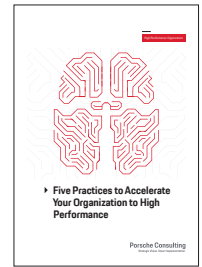
Thinking from
the Customer's
Point of View



Business Process
Management
Reloaded

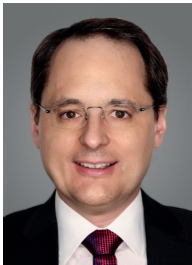


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