Oracle Financial Services

Simplifying the Product Portfolio

Rationalize product sets and reduce complexity.

WHITE PAPER / MAY 29, 2018

ORACLE

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Table of Contents

DIVERSE AND COMPLEX PRODUCT PORTFOLIO IN TODAY'S BANKS

Today, banks not only have the core product itself, but also large number of variations of the product to satisfy specific customer needs. Most banks treat each product variant as a separate product and establish distinct product manufacturing and distribution processes associated with them. Some banks still have several different variations for a particular product with only a handful of them generating substantial sales. As there is no clear distinction between products and customer offerings - it is not uncommon for banks to have hundreds of products in their portfolio.

Analyses suggest that 80 percent of the time, banks launch new products or modify existing products either because they want to price certain set of facilities or capabilities they provide to customers differently or, in some cases, they want to provide a set of facilities that have not been provided thus far.

Managing this diverse product base efficiently is now paramount and the need of the hour appears to be a clearly rationalized product portfolio. A small product portfolio not only has a huge impact in terms of change management but also makes it easier for the sales advisors and relationship managers at the front end to offer simple types of products. And at the back end, the system is simplified to essentially make decisions on the facilities to be provided, limits to be provided and so on.

If banks don't embark on a journey towards portfolio simplification, the complexity, confusion and maintenance costs are only going to amplify. This whitepaper attempts to highlight how banks must have a strategy for reducing complexity through simplification of their product portfolio. It also explains how an effective product rationalization initiative would generate benefits for both financial services providers and customers.

WHAT CREATES HIGH-LEVEL OF PRODUCT COMPLEXITY IN TODAY'S BANKS?

Most traditional banks struggle with not having one central source of truth for their product catalogs. Product tables are localized with separate tables for different products and lack data synchronization.

Traditional banking business models are structured around product groups leading to product silos. Furthermore, mergers & acquisitions and operations spread across multiple locations have resulted in disparate databases and disconnected applications. With multiple data sources for customer and product information, banks have failed to achieve a single view of the customer relationship across product lines.

One of the other key challenge facing banks is that they usually have products that are proliferated across multiple product processors. This hinders effective bundling and effective cross-selling. Each product line usually has its own charging capability. For example in a scenario of a bundle breakage, the customers need to be notified to choose another offer and the system needs to perform re-pricing calculations. This would be possible only if information about products and offers is available to users and roles across line of business and pricing is centralized. Also, in many banks, product and pricing are not fully decoupled.

Manual approaches to product development are rife with challenges that can negatively impact the bank's ability to quickly launch new products. When using a conventional method, information and ideas from cross-functional teams such as pricing, risk management and compliance are stored in spreadsheets and fragmented systems. The lack of unified visibility impedes collaboration across key stakeholders throughout the product development process.

SIMPLIFY AND RATIONALIZE THE PRODUCT PORTFOLIO

In today's age of digital banking, the objective of banks should be to reach a maximum number of customers with an optimum portfolio of products. As a matter of fact, there is no correlation between the product portfolio size and market share. If banks need to drive greater business success, along with launching new products on a regular basis, they need to consider the discontinuation of less popular and old products as well.

Although, offering a wide variety of products can increase the chances of appealing to a wider variety of customers, an overly complicated portfolio can eat away at a bank's profits. A large product range increases business risk as it becomes more difficult to ensure all regulatory obligations are met. It also leads to high maintenance efforts and additional operational costs of multiple systems supporting older products.

In the front office, more products means staff having to spend longer periods on customer interactions and having to process a larger variety of transactions—each with its own complexities. Not only does the complexity present a potential point of frustration for customers, but also dramatically increases the front office's time-to-serve, limiting sales efforts and reducing efficiency. Given a vast product range to deal with, front-line staff may not be well-versed with every single detail of the product, increasing the risk of mis-selling.

For the middle and back office, a broader product base requires the staff to maintain the entire portfolio for an indefinite period, to address potential customer queries about legacy products and historical transactions. Banks are forced to continue using outdated systems to avoid legacy product data migration issues.

This complexity in the product portfolio also impacts the bank's ability to offer a compelling customer experience. An excessive product proliferation can also confuse the end-customers. As customers get bombarded with multitude of products, one of two things happens: at best, they simply don't buy, helping contribute to stagnant conversion rate. At worst, they are annoyed, and decide to discontinue doing business with you altogether.

Banks need to turn their attention on redundant product variants and work towards better product lifecycle management. Banks need to identify and separate high potential products from the low potential ones and target the latter for rationalization. This would mean migration of all customers using an existing legacy product to a suitable replacement product, so that the outdated product can be discontinued.

On an average, banks may need to cut a third of their product portfolio. There isn't just one way of doing it. For example, one bank which had multiple products in a specific product class took a micro view of the specific product line and then cut-down variants which were based on parameters such as interest rates available, payment methods and so on. A substantial reduction was achieved in each of the product class such as savings accounts, current accounts, loans and so on.

The impact of a broader portfolio of products on the balance sheet has prompted some banks to take decisive actions to revisit their complex product portfolio and radically rationalize their product offerings. One of Australia's top 4 banks and Top 50 global banks serving 12.7 million customers through 1,700+ stores has moved from a complex product environment to a simple product structure by redesigning its entire product offering. With outdated legacy systems, any product feature or pricing change not only led to the creation of new products but also hampered the bank's ability to be nimble. The end result being an overtly dense portfolio of products which included hundreds of attribute based offering. It has now rationalized its core consumer and business banking product portfolios from more than 500 to 21.

APPLY MODULARITY IN PRODUCT DESIGN

Millennial customers demand more from their banks. A 'one-size-fits-all' product approach will no longer cut it. They prefer products that are customized to their personal needs.

The best way to achieve this is with a modular product design approach that has greater flexibility and can meet the ever-changing customer needs. The modular approach facilitates a product portfolio that has standard components and a varied palette of basic and optional modules, allowing for creation of different configurations and variants. The first step in this process begins with determining what features should be included in the basic set and, what will be customized.

Such a transition is especially necessary to inject innovation into market offerings and create a ‘plain vanilla’ product offering with multiple variations for customers to choose from such as – a standard checking account and different types of checking accounts (classic, silver, gold) with diverse specifications, features and benefits.

A leading bank in the U.S. has unbundled its checking account product where customers are free to create an account that fits their needs, allowing them to choose from a range of optional features and opting out of the ones they don’t need and are not willing to pay for.

ADOPT A BUNDLING STRATEGY

Banks can no longer afford to just focus on the current value of a customer, without paying close attention to the potential additional business a customer is capable of bringing. A product bundling strategy is the need of the hour to capture greater share of wallet and forging deeper relationships. When done properly, product bundling can boost profits by 15% - 30%. By being able to sell multiple products in a single instance, banks can generate higher initial returns and also reduce their customer acquisition costs.

Bundles should be designed in such a manner that they benefit both the customers and the business. For consumers it can mean getting more banking products at better rates. Banks would typically reward customers for purchasing multiple banking products across product lines. The more the products in the bundle the more rewarding it is. It also reduces the effect of ’decision fatigue’ in the buying process.

By combining varied banking products to create a “bundle”, banks have one of the most powerful levers to increase customer lock-ins. They can combine attractive and innovative products with less popular products, in order to boost sales of each and every product in the portfolio. When there are no product bundle options, it is unlikely that the customer would buy the entire package.

In addition to the core banking products, the bundles can be supplemented with value-added services, loyalty rewards and non-banking products such as insurance and investment products. This combination provides additional value and banks can differentiate themselves from its competition.

Banks need to arrive at an optimal product mix that more of their target segments will buy. They should exercise caution not to include too many unattractive products as part of the bundle, which may result in customers opting out of the bundle and buying attractive products separately. Banks must be well aware of changing customer needs and match their bundling strategies with the customer’s life cycle.

ORACLE FOR PRODUCT RATIONALIZATION AND PORTFOLIO SIMPLIFICATION

Oracle believes that the need of the hour is an enterprise-class product manufacturing solution that provides capabilities to create innovative products faster, add features to existing products and build differentiated product bundles.

Oracle Banking Enterprise Product Manufacturing provides banks with the most comprehensive suite of tools to set up and configure its products and offerings, including defining unique features/preferences for each of the products. It also allows the Bank to maintain policies which are applicable at the bank level for various business areas. The solution enables agility by externalizing all product information from multiple operational systems into a central repository, where products can be easily configured and modified. This repository also maintains offer eligibility and business rules, ensuring that offer restrictions are enforced systemically rather than by internal banker expertise.

Uniquely, Oracle's solution allows users to tailor unique product features to an existing product which eliminates the need to create an entirely new product. It enables the banks to make changes to features, set restrictions or pricing based on market and customer needs. The in-built product hierarchy structure with multiple levels of segregation and product catalog syndication with an extensive library of reusable business rules enables users to leverage existing templates ensuring faster launch of new products.

Most importantly, with decoupled product and pricing, the solution provides greater pricing flexibility as users are able to build in fees, charges, taxes, rewards, loyalty and discounting benefits for a product. This functionality enables to define accounting treatment of interest/fees and charges. The banks can embrace relationship-based pricing, which allows them to tailor rates based on a customer's current or potential value to the bank.

Oracle Banking Enterprise Product Manufacturing makes it easier to package multiple products as bundles with attractive benefits; thereby improving up-sell and cross- sell effectiveness. It enables banks to create product bundles and manage their end-to-end lifecycle, from configuration to agreement management and closure in one central place.

Oracle Banking Enterprise Product Manufacturing delivers several business benefits to banks including the ability to:

- Simplify and rationalize product portfolio
- Minimize product proliferation
- Launch products faster
- Create product bundles with ease

CONCLUSION

Banks across the world are forced to confront a difficult question: how do we manage such a broad spectrum of products. Despite the fact that product rationalization is an integral part of product management, it continues to be a frustrating pursuit as it involves making changes across multiple levels of organization. However, only traditional banks that adapt will survive and avoid being outflanked by new digital entrants who have permeated the banking landscape. It is imperative for banks to take decisive actions to rationalize the product portfolio, as an optimal product portfolio will lower maintenance and operational costs and boost profits.

Furthermore, traditional banks have their work cut out and need to replace tens of outdated legacy systems with a single product management platform for effective product portfolio management. Transforming the product management capabilities can serve as an excellent starting point for a broader digital transformation agenda.

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Integrated Cloud Applications & Platform Services

White Paper Title
January 2017
Author: [OPTIONAL]
Contributing Authors: [OPTIONAL]