

# BUSINESS **INSIGHTS**



## **CUTTING THE FAT, NOT THE MUSCLES**

Product Rationalization

MARCH 2025

# YOUR CHALLENGE

Over the years, Blackfield Consulting has worked closely with Fortune 500 companies, guiding them through a range of complex organizational challenges. The firm's seasoned professionals bring deep industry expertise, enabling clients to uncover new opportunities and navigate shifting market conditions.



**By focusing on strategic insight and practical implementation, Blackfield helps companies build resilience and achieve lasting success**

This wealth of experience is captured in its white papers, which provide readers with in-depth guidance and proven tactics to address issues faced by businesses across the globe. From developing robust corporate strategies to streamlining critical processes, Blackfield's knowledge-sharing approach positions companies to thrive amid constant change and evolving demands. By leveraging a collaborative approach, the firm consistently delivers outcomes and competitive advantages.

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# CUTTING THE FAT, NOT THE MUSCLES

Periodic product rationalization is essential to prevent oversized and costly product portfolios. However, internal politics and a lack of clear insights often hinder efforts to achieve structural cost savings in the right areas.



## Key Takeaways

- **Streamline oversized portfolios:** Oversized product portfolios with underperforming offerings dilute value; optimizing these by focusing on the 20-30% products driving revenues enhances efficiency and increases customer satisfaction.
- **Navigate politics with transparency:** Internal politics hinders rationalization; full transparency into costs and revenues aligns stakeholders, ensuring decisions prioritize customer needs over individual agendas. Yet, it requires proactive leaders to face the status quo.
- **Deal with Sticky Costs:** Sticky costs, such as legacy IT systems supporting obsolete products, often persist post-rationalization; a militaristic approach leveraging raw data is required to refocus resources to high-performing offerings.

Let's face it—most financial service providers have product portfolios that look like a drawer you've been stuffing papers into for years. There are old savings accounts that only a handful of clients use, a dusty investment fund that was flashy in the 90s, maybe some niche insurances that sounded good at the time, and who-knows-what-else in there. The products piled up, all added to attract a client or keep one happy. But here's the reality: these products are draining resources, confusing customers, and costing millions.

What is product rationalization, anyway? It is all about cutting the fat, not the muscles. It's about getting a clear view in the chaos of the product portfolio. It's the process of taking a hard look at individual products and services and focus on what actually delivers value. It is about identifying the low performers or redundant offerings, weigh the costs they cause downstream, then decide what to consolidate or phase out. Think of it as a good murder mystery: Product Edition – the case of the profit-draining products. Let's dive into how to solve the case.

## Why product rationalization proves difficult

Simplifying the product portfolio can be more complicated than it sounds. Over time, banks, insurers, and asset managers expand their offerings – tailored mortgages, specialized loans and funds, niche savings accounts - to meet diverse client needs. Yet the underlying data tells a story: only 20-30% of these products drive profitability. The rest of the products underperforms, drains resources, complicates compliance, and runs on legacy IT systems.

Legacy systems are a particular hurdle. Retiring them is rarely straightforward, even when only one product depends on a system - think of it as a parking garage that can only be closed when the last car is out. In parallel, a lack of cost transparency across the value chain adds another layer of complexity. Without clear visibility, identifying inefficiencies feels like guesswork.

### *Navigating politics*

Rationalization isn't just a numbers game - it's often a match between egos while the customer usually loses. In a nutshell, product rationalization attempts often do not survive internal politics. While the overall company's strategy might be to consolidate the portfolio, individuals may prioritize their circle of influence while hiding behind "complexity". It's for example not uncommon to see relationship managers defend unprofitable products to preserve client relationships, IT teams wrestle with a web of tied up legacy systems, while compliance raises valid concerns about regulatory risks. In addition, Finance, focused on the bottom line, struggles to reconcile priorities across the value chain.

These politics keep product portfolios oversized, even when it's obvious that some products only drain profits while frustrating clients. To break through, proactive leaders are needed that can navigate these tensions to bring transparency across the full product chain.

## Transparency: the foundation

Effective rationalization begins with transparency. It's about knowing which products pay the bills and which ones just crash on your couch. Hence, decision makers across the value chain need a clear overview of products, costs, revenues and product/ system correlations - be it mortgages, wealth management offerings, or loans. Let's face it, this starts with opening up the books.

A lack of transparency is not perse unwillingness, sometimes it's the effect of poor documentation or communication. For example: let me ask you to do an experiment that will strike you: ask ten colleagues - bankers, advisors, business developers, IT developers, even executives in your product chain to sketch out the full product portfolio. Nine out of ten will stare at you like you've asked for the meaning of life. It's the truth - most don't know what's in their own shop, let alone what products are making money or only cost a lot.

**'Only 20-30% of the products drive profitability. The rest of the products underperforms, drains resources, complicates compliance, and runs on legacy IT systems'**

Hence, the simple goal is to identify which products generate value and which simply cost you money. Cut the fat and not the muscles. Contrary to what many will tell you, this doesn't have to be "complex". Organizations often overthink this process, delaying immediate action with unnecessary debates and long-term planning. Yet, it starts with getting your hands dirty by mapping all the value chain costs and revenues to individual

products, so that informed decisions can be made with confidence.

As a next step it is key to identify a few pockets of low-performing products that can be rationalized in order to build trust for the approach. Early successes like these build momentum and credibility. Full consensus isn't required upfront; a proactive leader can kick things off, using tangible results to win broader support. Once stakeholders see the value of these initial efforts, broader alignment and support will naturally follow. It's about starting small and scaling up.

## Digging into raw data

High-level reports are like Instagram filters – pretty on the surface but hiding the mess. This shows, to my opinion, a great parallel with product rationalization. The real story is in the raw unfiltered data and not in flashy high-level benchmark reports. Product level costs/ revenues and dependencies across products processes and

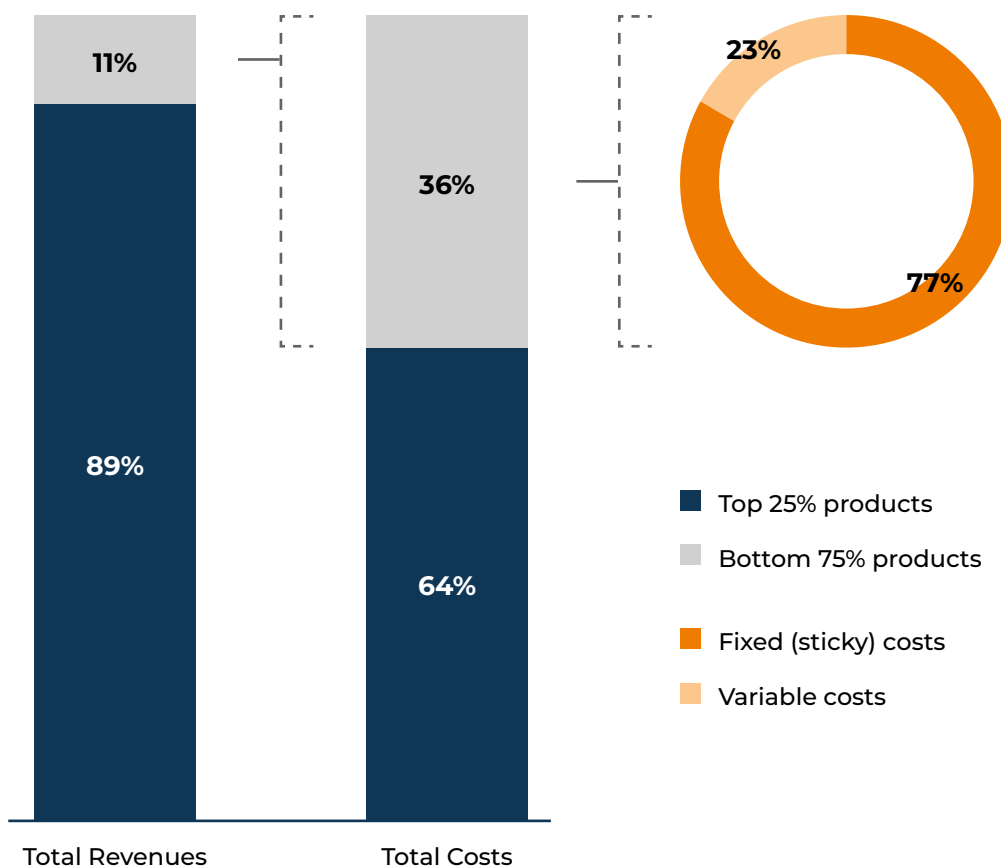
systems, that's where you find the leaks.

Get the facts, make a decision, and move fast. For example, Blackfield used advanced analytics to evaluate the raw data of ~100 product variations at one of its clients. The results: only 25% of products generated 89% of revenue, while the remaining products accounted for 36% of the total costs. Early elimination of some of the low-performing products enabled our client to redirect resources to high performing products and boost volumes there. Over time, contracts for low performing products were renegotiated to increase margins. Another important insight: Blackfield found that 80% of these low-performing product costs were in fact sticky costs, i.e. fixed costs tied to legacy systems and processes.

### *Managing sticky costs*

Some costs stick around even after products are retired - think legacy IT systems handling the savings account that only a handful of clients uses, risk and compliance costs, or staff tied to legacy

### Top versus Low Performing Products



processes. E.g spending 500K annually to maintain a system for two clients with an obsolete insurance product is not an exception.

These costs can't be eliminated overnight, a phased approach can provide a solution. Start by isolating these "sticky" costs at the most granular level, separating fixed from variable elements. Then tackle them incrementally: decommission non-core systems, reallocate personnel to further boost volumes of already profitable products, or outsource to vendors to shift fixed costs to flexible costs. Also, let's not forget about rapid developments in the A.I. space. When 60-70% of the costs are tied to FTEs, such new technologies can be a life saver. It's not about replacing people - it's about enabling them with tools to move faster and smarter for high-performing products.

To track benefits a "sunset plan" for removing products is needed, i.e. setting firm end dates and a communication plan towards stakeholders and customers. Subsequently, regular reviews, say quarterly, will ensure these expenses don't come back. It's a militaristic approach with a clear payoff, also for customers.

## Enhanced customer experience: win-win

An oversized product portfolio doesn't impress clients, on the contrary: it overwhelms them. Too many options - complicate choices and potentially erodes trust. On the other hand, a streamlined set of high-performing products simplifies the experience and breathes expertise. And, in an industry that is defined by regulation and relationships, a simple and concise product portfolio is a valuable asset that's hard to beat.

*Cutting the fat, not the muscles*

**Product rationalization isn't just about cutting the fat, it's about strengthening muscles and focus efforts on products that matter. While the road may be challenging, the rewards are undeniable: streamlined operations, improved margins, and a better customer experience. Yet, it requires leadership to challenge the status quo.**



# OUR MISSION

Blackfield's approach extends far beyond merely pinpointing cost-saving opportunities. With a deep understanding of cost structures and operational processes, we identify areas of cost flexibility and efficiency that are practical, sustainable, and fully aligned with our clients' long-term business objectives. By working collaboratively with all relevant teams and specialists on the client side, we ensure these strategies are smoothly integrated and embraced across the organization.

At Blackfield, we don't just provide comprehensive financial analyses—we equip clients with the tools and knowledge to actively engage with these

insights. Our solutions allow for real-time updates of key figures to monitor shifting trends, structured development and tracking of business cases to measure the impact of projects and programs, and detailed scenario analyses, whether for offshoring, outsourcing, or IT system replacements. By enabling clients to assess multiple strategic options, we facilitate well-informed decision-making that drives long-term success.

Our commitment goes beyond delivering insights; we provide solutions that are precise, transparent, and designed to support targeted, concrete interventions with measurable impact.



## Our approach

Accuracy is at the core of everything we do. Our solutions are designed with precision, ensuring that all numbers are 100% accurate and traceable back to the raw, unfiltered data. In addition, we partner with our clients to build solutions that are user-friendly, easy to implement, and

straightforward to maintain. We tailor each solution to meet the specific business requirements, while ensuring organizational buy-in. Moreover, we offer full support in the execution phase, ensuring that the client achieves lasting results with minimal disruption.



**At Blackfield, we deliver a seamless customer experience through user-friendly models that clients can easily maintain and update. With these models our clients can generate recurring insights, ensuring that they can continuously monitor performance, make data-driven decisions, and adapt to changing needs with ease.**

### **Accurate**

Accuracy is our primary goal. Best guesses aren't accurate, so we measure and validate. We work with raw data and ensure traceability of all steps. Optimal spend is only possible when the numbers add up.

### **Tailor made**

We provide strategies that are easy to understand and execute. Financials can be complex and clear explanations are essential. We capture even the most complex models in simple structures.

### **Straightforward**

Every situation demands a bespoke tone of voice, and problems can be solved best when the unfiltered truth is addressed. Hence, our advice is straightforward and tailored to your needs.

### **Flexible**

Sometimes you need us to be in the line of fire, sometimes you need us to operate below the radar. No matter the situation, we apply the style required for the highest impact to reach your business goals.

Our core values enable us to deliver solutions that are not only precise and tailored, but also practical and responsive to the unique challenges our clients face. This approach ensures that our insights translate into lasting impact, seamlessly aligning with the strategic ambitions of your organization.

# EXPERT TEAM



## Mark van der Burgt

### Managing Partner

With an exact science foundation, 10+ years in consultancy and a zest for solving complex problems. Made his career in the financial industry, fast moving consumer goods and advertising. Designed and delivered multiple large, strategic programs. Is keen to leverage leadership and IT experience to deliver the digital or strategic fundament for your company.

Mark is result driven and retains an overview when challenges are complex, stakes are high and context keeps developing. At his best when leadership is needed in ad hoc and high-stake situations, facing serious time pressure.



## Nick Breukelman

### Managing Partner

Holds an International Business Administration degree, specializing in entrepreneurship and philosophy. Experienced in strategy definition, operating models and value cases, with a strong eye for simplicity. Designed and led large transformational programs. Looks back at 10+ years of consulting in financial services, government affairs and technology.

Nick has a natural feeling for structure and connecting the dots. At his best when both the stakes and complexity are high. Stays calm in any situation operates as a trusted advisor close to the executive board of organizations.



## Vincent van Oeveren

### Managing Partner

A background in Mechanical Engineering and Business Administration, specializing in finance, strategy and operations. Driven multiple projects at various large corporates with always a strong focus on connecting strategy to cost efficiency, lead time and agility of processes. In parallel, Vincent acted as entrepreneur in the veterinary sector for 10+ years.

Vincent is highly experienced in simplifying and quantifying complex challenges to drive decision making. Architect of multiple company-wide business cases, incorporating aspects of Agile and DevOps, (out)sourcing, workforce alignment and profitability.



Blackfield Research analyzes the opportunities and challenges we encounter in practice, distilling key lessons along the way. Through our whitepapers, we are eager to share these insights with anyone interested in gaining a deeper understanding in corporate financial and social structures.

If you have any questions or suggestions, please don't hesitate to reach out. The same energy and passion we bring to our work, we also bring to sparring and refining our expertise. We welcome every opportunity to engage in meaningful discussions and further develop our knowledge together.

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