Reconstructions in Banking Business Model; Development of BMO via BBM Project

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Abstract: Banking nowadays is a vital chain sub-structure in economies; Banks provide customers with many financial services but as a unwritten but pervasive crisis, lack of innovation in financial services and products became a permanent problem of newly-entered banks, as well as established ones. In this paper, we propose some vital but neglected areas of acting to some extent innovatively, and so we develop an innovative-centered business model reconstructions, that aim to reach ontological level in future researches. This objective came true via Banking Business Model (BBM) project that is a broad business model design project for banking industry, and a part of this named Program C (Program of Change) will be presented here. Results show that many bankers have not enough knowledge about business model so Program C helps them as a starting point.
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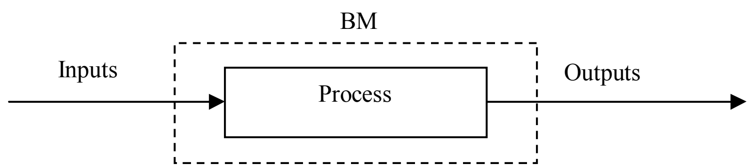
Introduction

A business performs through business model and accordingly, a so-emphasized application and importance of business model is to define what is done in a typical business (Nielsen & Bukh, 2008; Galper, 2001; Gebauer & Ginsburg, 2007; Morris, et.al., 2005; Osterwalder, et.al., 2005; Rappa, 2001). So we have two broad area of definition. Some defines business model as a method, technique and of all, way of doing business and the other, define it as a reflective tool for clarifying what is done in a business (Nordlund, 2007; Torbay, et.al., 2001; Osterwalder, et.al. 2005). On the basis of first category, we propose a list of traditional banking services and financial products and then try to restructure them in some innovative manner; This is of Value Proposition Unit of Alexander Osterwalder's Business Model Ontology- so-called "BMO" (Osterwalder, et.al., 2005). In the unit of "Financial Aspects" we propose some advices for marketing, brand value, risk management, Ads, relationships. Because of applied objectives of this paper, we use data of two banks ranked in the Banker institution that is worthily accepted as an international center for providing information on banks. Names, positions and all data of these two banks kept secret because this investigation is requested privately. In sections below, first we present a review of related literature and then, focus on current status of banking services and then, the ways of tomorrow.

Literature Review

1.Business Model

Briefly, business models are the ways companies implement their core job and earn money; in other words, business models are logics, methods and techniques that enable organizations to execute their core mission founded for, create values and reach goals (Nielsen & Bukh, 2008; Galper, 2001; Gebauer & Ginsburg, 2007; Morris, et.al., 2005; Osterwalder, et.al., 2005; Rappa, 2001). A business model clarifies the value proposed to customers, customers classification, products and services, suppliers, finance, market segmentations, etc. (Nordlund, 2007; Torbay, et.al., 2001; Osterwalder, et.al. 2005). In other words, a business model acts as the central part of the working structure of an organization that may be considered as "Process" box, but furthermore includes other parts.



Osterwalder (2002) believes that BM is a appropriate tool for designing and development of business and set indexes to measure business performance. Petrovic et.al. (2001) argues that BM is the logical architecture of a business components in order to create value; so BM is executing form of an organization strategy. Amit and Zott (2000) presents a definition that is similar to Petrovic's and state "a model is related to the components of a transaction and opportunity exploitation"; these components that collectively form BM, are information, services or products and stakeholders of a macro-size transaction that sum up to be a business with its all customers. Rappa (2001) argues that BM is the way that companies earn money. Timmers (1998) says that BM is a description of different components of s business like suppliers and sources, too. Afuah and Tucci (2001) focused on "Value Creation" and strategy-related definitions. Table 1 shows a scope of definitions range briefely. Table 2 shows a list of researchers work in the field of BM, with their most famous year (till this paper prepared).

We took the definition of Osterwalder et.al (2005) because it has a comprehensive view and is known as an "ontology" of business modeling (Business Model Ontology – BMO), so we can adapt it for our innovation based BM definition. Osterwalder defines BM as a conceptual tool contains a collection of goals and concepts and their relations that aims to state the exclusive logic of a firm. This shows that how and what is proposed to customers and what is that financial outcomes. In fact, there are two major approaches about business models (Osterwalder, et.al., 2005): some scholars use it to show how a company works (Galper, 2001; Gebauer & Ginsburg, 2007; Osterwalder, et.al., 2005) and whoever that focused on the aspect of "Model" that assumed it is a tool to decrease complexities of real world. We focus on the first one and suggest BBM.

Table 1. Definitions Range At A Glance

Researchers	Year	Core Concepts
Rappa	2001	The way(s) company earns money
Amit & Zott	2000	Architecture of business components to exploit opportunities
Osterwalder et.al.	2005	Goals and processes describe the logic of business
Nielsen & Bukh	2008	Ways of performing business
Morris et.al.	2005	The value that company proposed; The value that is created by a company; The value of company activities; …
Nordlund	2007	
Torbay et.al.	2001	
Osterwalder et.al.	2005	

Table 2. Famous Scholars of the Field of BM

Year	Researcher	Year	Researcher
2001	Alt & Zimmermann	2001 , 2003	Afuah & Tucci
2001 , 2007	Amit & Zott	2000	Hamel
2000 , 2003	Chesbrough & Rosenbloom	2001	Rappa
2002	Gordjin	2002 , 2005	Osterwalder, et.al.
2000	Mahadevan	2001	Petrovic & Kittle

We took the Osterwalder's BMO because it has an ordered comprehensive approach that is suitable for jointing to the process-based definition of banking concept, that will be isotonic and act synergistically to form the new concept of BBM. Figure 1 shows his ontology.

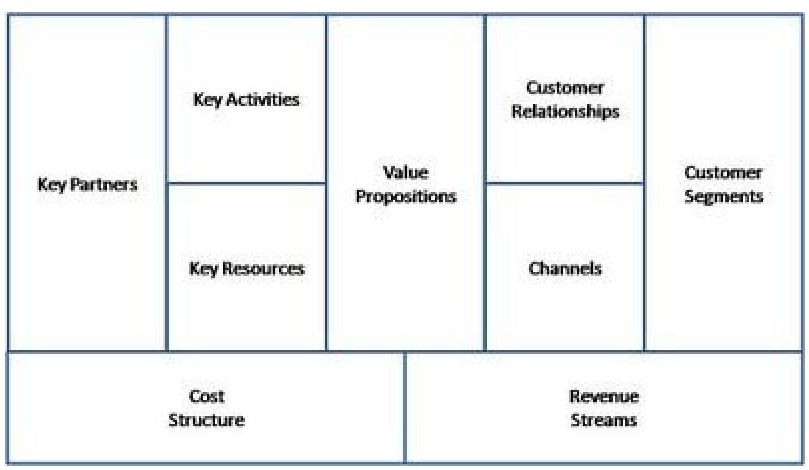


Fig 1. Osterwalder's Business Model Ontology

BMO presents nine fields that are related together that enables a business performs properly. Innovation may occur in any of these fields; some of possible public innovation for all industries is presented on the Table 3. Note that possible innovations are much more than the presented ones and banking exclusives will be presented in next sections.

Table 3. Innovation Examples in a BM Components

Field	Item	Example of Innovation
Infrastructure	Key Partners	Inter-locking Suppliers
	Key Activities	Reengineering Production Technology
	Key Resources	Substitution of a Raw Material
Product	Value Proposition	Innovative and Customized Products
Finance	Cost Structure	Financing From Products
	Revenue Streams	Earn Money From Social Responsibilities
Customer	Customer Relationship	Customers-in Production
	Customer Segments	New Markets Creation
	Channels	Smelling via Phone

Some of the innovations presented, are secret projects of companies so we could not explain it.

2.Banking Today

In today's competitive market, banks have an unique role in supplying financial and monetary needs of society; so acting properly, is an important goal whether for microeconomic approaches and macroeconomic (Heffernan, 2005). European Central Bank (2009) develop a generic definition for banks as "an institution that acts as provider of loans and patron people's assets". This definition that comprises two broad activities that differentiate banks from other monetary and financial institutions. Any other functions of a bank, is classified as:

1. Providing the appropriate channel for money flow, by accepting deposits and distributing public payment systems;
2. Wealth management and risk balancing;
3. Providing equilibrium in a society economic system and supporting of industry.

So the applications of banks for an economy is:

1. Decreasing costs of pursuing a typical loan lender/borrower;
2. Fairness in financial segmentation;
3. Minimum risk of failure because of broad operating field.

Banks, by collecting small capitals and proper management and allocating, provide industries and services sector with the capitals they need (cash or non-cash) at right time.

Without acting through this simple mechanism, economies and their companies will face with problems, even will collapse. Banking industry, like other industries, has its own conceptual and executive models (Dilley, 2008), so we try to give some advices to promote attention to models of banks, these hearts of economic systems (Bongini, et.al., 2009).

Banks are classified into three major categories: commercial banks, investment banks and universal banks (Iannotta, 2010). We focus on public definition of bank, because banking business model is about an industry and classifications may not act as a changing force.

First type acts as capitals aggregator and loans provider; Second type acts as investor (on its behalf or as a representative of a wealthy person) of feasible projects; The latest type is collected form of commercial and investment banks –that has some efficiencies of two other types). Some new banking services lines such as "Corporate" or "Private" also are emerged but these could be classified in previous categories presented.

By deep literature reviews and open interviews with experts of these fields, we summarize banking related business models via two categories. As not many scholars focused on derivation dedicated business models for industries, finding some that presented was rare and very hard, but MIT university, presented sixteen type of business models that called “MIT business model pattern” that were created by joining the rights will be sold and the type of assets; so we have four basic business model that are Creator, Distributor, Landlord and Broker. Four types of assets are Financial, Physical, Intangible and Human. So the sixteen possible outcomes of joining these two are Entrepreneur, Manufacturer, Inventor, Human Creator (that is banned), Financial Trader, Intellectual Property Trader, Human Trader (that is banned), Financial Landlord, Physical Landlord, Intellectual Landlord, Contractor, Financial Broker, Physical Broker and Intellectual Property Broker (Malone, et.al. 2006). The appropriate models for banking were Financial Trader, Financial Landlord, Contractor and Financial Broker. Lambert (2008) introduces a large collection of business models labeled by scholars for e-businesses, industries, etc. Our studies show that it’s better to rely on an ontology then derive a specific model for specific industry. So we make some developments on the basis of BMO, and in the next paper, we propose a reference style for designing banking business models.

Research Methodology

By gathering data of two banks, one as a benchmark and the other as the target of investigation, we held some “focus group” meetings that experts of banking and professionals of business models (about 60 persons), analyze the gap of two banks. As mentioned above, we took the ontology of business model presented by Osterwalder. So, group members focus on each part of business model and investigate the probability or lack, possibility or impossibility of changes must be done for the target bank, to decrease the gap or eliminate it. Tier 1 data from the Banker, was used and the official references as official websites, brochures, board of directors statements, financial data sheets and etc. Tier 1 capital is the main scale for measuring a bank’s financial strength (see the Banker for more information).

The benchmark bank was at Top-10 group, in a ten years period of the banker and the target bank, is near the rank of 1000, for years! In the next section, we present the result and finally a deep discussion.

Possible Changes vs. Essential Changes

Over decades, business model concept has been matured and today, there is not the problem of what it is, we think; but the lack of industry-oriented business models that maximize profit for all stakeholders and act user friendly. In this paper, we try to investigate what weaknesses of a business model, makes defects on operations of a typical bank. Our findings are presented on table 5 with enough description. Table 5 shows our findings about possible changes that target banks must do to fill their gaps and table 6 shows vital committees every banks must have. Yes, nowadays we need a captain leading a ship was caught in a permanent storm, like intense competition in the market, instead of merely a manager, directing officially a company.

Table 5. Advices For Doing Innovatively

Field	Items
Value Proposition	Number Of Services
	Renewal Of Processes
	Changing The Appearanes
	Innovative Products
	Customer-Oriented Products
Partnership	Allianes
	Non-Banking Unions
Resource Allocation	New Agenda
	Collect And Redistribute Transaction Costs
	Gain Ability To Form Future Customers And Situations
Value Setting	New Agenda For Attracting Money
	New Methods For Profit Generation
	Having Expert Group Of CE* And FS**
Relationship Mechanisms	Answers-To-Needs System (ATN)
	Customer-Oriented Products And Services Even Unknown
	Human Resource Training
Channels	7×24 Human-Based Branches
	IT-Based Channels
	Customer-Oriented Channels
Segmentations	Public Sector (Social Responsibility)
	Private Sector
	Corporates
Cost Structure	Bank's Brand And Image Maintenance
	Proffesional Personnel
	IT-Based Technology
	Transactions (Covered By Incomes)
Revenues	Private Banking
	Networking And IT Based Banking
	Cost Efficiency On The Ratio Of Expert To Average Personnel
	New Market Entry
	Brand Authority To Make New Market-Customers Available
	Share Of Heart And Mind
Profits > Loss	Must Be Reached By Taking This Advices (The Reference Bank Took It And Did) And Program C (Program Of Change)

*CE = Corporate Entrepreneurship; CE comprises of some method that makes banks agile and innovative.
**FS = Future Study; FS comprises methods like scenario planning that give power of play in future, to whom is aware of shaping it.

Program C, a part of the great project of BBM, is an ordered, controlled step-by-step program that is designed for banks, that by taking it, banks could be sure that are in their own roadmap. It comprises of some expert groups and some checking methods. Because of ordered schema of this paper, we present only some of elements on table 6.

The description of contents of table 5 is presented below. This is a brief description and we aim to explain them in an educational paper later.

Number Of Services. Refer to number and diversity of products and services a bank provides. Whether a bank is commercial, investment or universal, diversity in products portfolio cause attracting more prospecting customers.

Renewal Of Processes. Process Reengineering, even for right, profitable and trusted processes, make company sure about being up-to-date and accurate. Game playing and timing of doing a task via a process, is an useful method to understand about processes.

Changing The Appearances. Everything that transfers newness and agility, must be the headline of companies in today's fast changing market.

Innovative Products. Innovation is the unique tool for being different. So in banking too, we needs to present innovative products and services such as those cited on value proposition.

Customer-Oriented Products. Customers always like to feel that providers are under their command; so let them feel and make profits! Sometimes a low percent discount make customers delight.

Alliances. A proper way to decrease disturbance of market, is to contract some alliances even with rivals.

Non-Banking Unions. Never forget unofficial relationship via other sectors of industries.

New Agenda. Having a fresh and up-to-date strategic and long range planning, shows that company aims to attend in market and is ready for future.

Collect And Redistribute Transaction Costs. Transaction costs are inevitable, but management of TC makes P/L equity heavier on the side of Profits. Allocate TC to giant-scale transaction and delight common customers by decreasing or eliminating TC.

Gain Ability To Form Future Customers And Situations. Future studies, give power of being ready and shock-taking ability to a typical company; so form professional committees to study the future of company.

New Agenda For Attracting Money. As a basic task of banks, accepting and attracting wandering capitals makes a bank financially powerful; so having an accurate agenda for Ads, gifts, discounts and etc. make bank eminent among rivals.

New Methods For Profit Generation. As mentioned above, attracting money makes bank powerful and enable it to invest in more feasible projects and give more different loans. So this is an outcome of attracting money.

Having Expert Group Of CE And FS. Corporate entrepreneurship is a collection of methods and platforms to revive a company better than ever. This paper is not about CE but we emphasis on accepting these methods because entrepreneurship as an economic behavior is a confirmed profitable method. Future studies make banks powerful about customer and market segmentation and changes, This type of committee is wrongly ignored among companies.

Answers-To-Needs System (ATN). Sometimes a customer needs only to a consultation, some expert to hear his\her concerns or suggestion. Everything a customer needs, an old customer, new or prospecting one, is provided in ATN system. Banks should pay attention more than ever to launch such a system, to delight customers. Note that it is broader than something like voice of customer system.

Customer-Oriented Products And Services Even Unknown. As mentioned above, customer-centered services make customer permanent because they think they are a part of their bank success.

Human Resource Training. A good employee, is good face of bank and a bad one, is bad face! Customers indeed, faced with clerks but they imagine faced with whole bank and what is done by clerk, good or bad, is exactly what is done by bank! So pay attention to HRM;

banking knowledge will be learned but kindness and patience will not.

7×24 Human-Based Branches. There are many machine branches working all 24 hours in a week, but it is recommended that by considering security points, some human-based night branches give services same as daytime branches. It will be wonderful!

IT-Based Channels. Companies without efficient IT-based services, are condemned to be eliminated even by their loyal customers!

Customer-Oriented Channels. By security considerations, let customers connect to company via the mediums they want.

Public Sector (Social Responsibility). This is a primary task of a bank to give public services. This could guarantee the bank existence.

Private Sector. Special services like wealth management, are always attractive for special customers.

Corporate. Corporate banking is a very innovative way either for developing bank field of works and projects, or beneficiate of having strong alliances (networking) with giant companies. Note that the FS group must be aware of main company decisions.

Bank's Brand And Image Maintenance. Brand value is infinitely important. How much a company spends for its brand value, strongly related to its long-range planning.

Professional Personnel. Doubtless, they are hearts of a successful company. Change the ratio of professional/average employees for the benefit of numerator, to decrease loss. Their wages are exactly an internal investment.

IT-Based Technology. When people become accustomed to a technology, lack or failure of its presenting tool, make them angry, so pay for maintaining these services up to date.

Transactions (Covered By Incomes). As mentioned above, by collecting transaction costs into giant transactions, bank's costs decreases, as well as common customers will be delighted.

Private Banking. A win-win game with special customers that have monetary power and needs to wealth management and decreasing the risk of defects on assets value.

Networking And IT-Based Banking. Nowadays it is common but no saturation is forecasted; so invest more on it.

Cost Efficiency On The Ratio Of Expert To Average Personnel. As mentioned above, the greater the ratio of professionals, the more powerful the heart of a business that performing tasks and missions. Costs of professionals, are indeed internal investments.

New Market Entry. By collecting small capitals and results of FS study and strategic planning, a bank could enter into a new segment, like Medicines banking; Note that customization of services, make the number of customers limited, so the result profits must be significant.

Brand Authority To Make New Market-Customers Available. If a bank has a valuable brand, it may help to enter into new markets and attract new customers.

Share Of Heart And Mind. As a desired result, all marketing programs are successful when a brand has share of heart and mind of a typical customer. Otherwise, marketing programs must be changed periodically.

Table 6. Vital Committees Each Banks Must Have

Committee Name	Mission Statement and Reasons of Creation
MFG	Marketing Focus Group - This is a professional group, not outsourced and includes high level managers and max. 5 marketing experts. This committee must monitor markets, study market changes, write customer relationships agenda, etc. Instead of employed experts, banks can use the advices of external marketing consultants, but it's better to rely on internals.
BMM	Business Model Monitoring – This comprises of professional banking top managers (max. 5) and strategic manager. Any outsourcing should not be done. BM includes revenue streams, so BMM should maintain it up-to-date and at P>L level. This committee must monitor rivals' BM, update BM periodically, suggest the renewal of some operational and appearance changing (like changing the appearance of letter of deposit), search for new revenue streams, etc.

We hope BBM project will result soon and new era of business model design and classification in banking begins.

Conclusion

Business model is the way companies perform through or is the reflection of what is done in a typical business. Based on the first category, we proposed BBM, that is a comprehensive program includes theoretical and applied advices and methods to enrich a bank business model. We took Osterwalder's BMO as the basis of developing BBM; then we compare two banks standard data; one was benchmark and the other was target of renewal and modification.

There are two groups of limitations; first group is related to domestic conditions like Central Bank rules or hostile policies of other rivals. Second group is related to scale of companies.

Our findings obtained via our broad studies about organizations performance and business models gap analysis, show that choosing a benchmark many far from the current position of target, not only helps target organization to be restructured to go to a better position, but also causes wrong and hasty decisions and policies that result in failure of strategic goal that albeit, were set wrongly before. For instance, filling the gap between position 100 and 10, is easier than 800 and 10! So, in these cases, there are two solution: Visional and Applied Benchmarking. In visional or theoretical benchmarking, we could pick a high level reference sample, ever position 1, because we want to write a vision and long-term plan; so it's better to be majestic. In the other hand, in applied benchmarking, we must breakdown the visional benchmarking results, into step-by-step operational gap filling strategies; so for instance, position 800 must target to reach e.g. position 700 first, then 500 for instance, and goes ahead. Note that visional position should not never lose and always must be pursued, but as a incremental manner, BBM is a step-by-step program designed for banking industry specifically; but in some cases, employed radical reengineering methods instead of incremental changes. We hope BBM will be extended and completed, that all rivals compete through their own advantages, not chances or dummy methods.

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