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Defining a Value Chain for a Bank

Dating all the way back to the 1970s my colleagues at BPTrends and BPTrends Associates and I have been doing process work with banks. Banks present some interesting business process architecture questions – especially when you begin by trying to define the bank's value chains.

In the 1970s, most banks were organized by department – generally around branch operations, product/service lines, operations and support services - as depicted in Figure 1 below. (Keep in mind that in the US in the 1970s, banks were limited to operations in one state – in this example we depict a small California bank.)

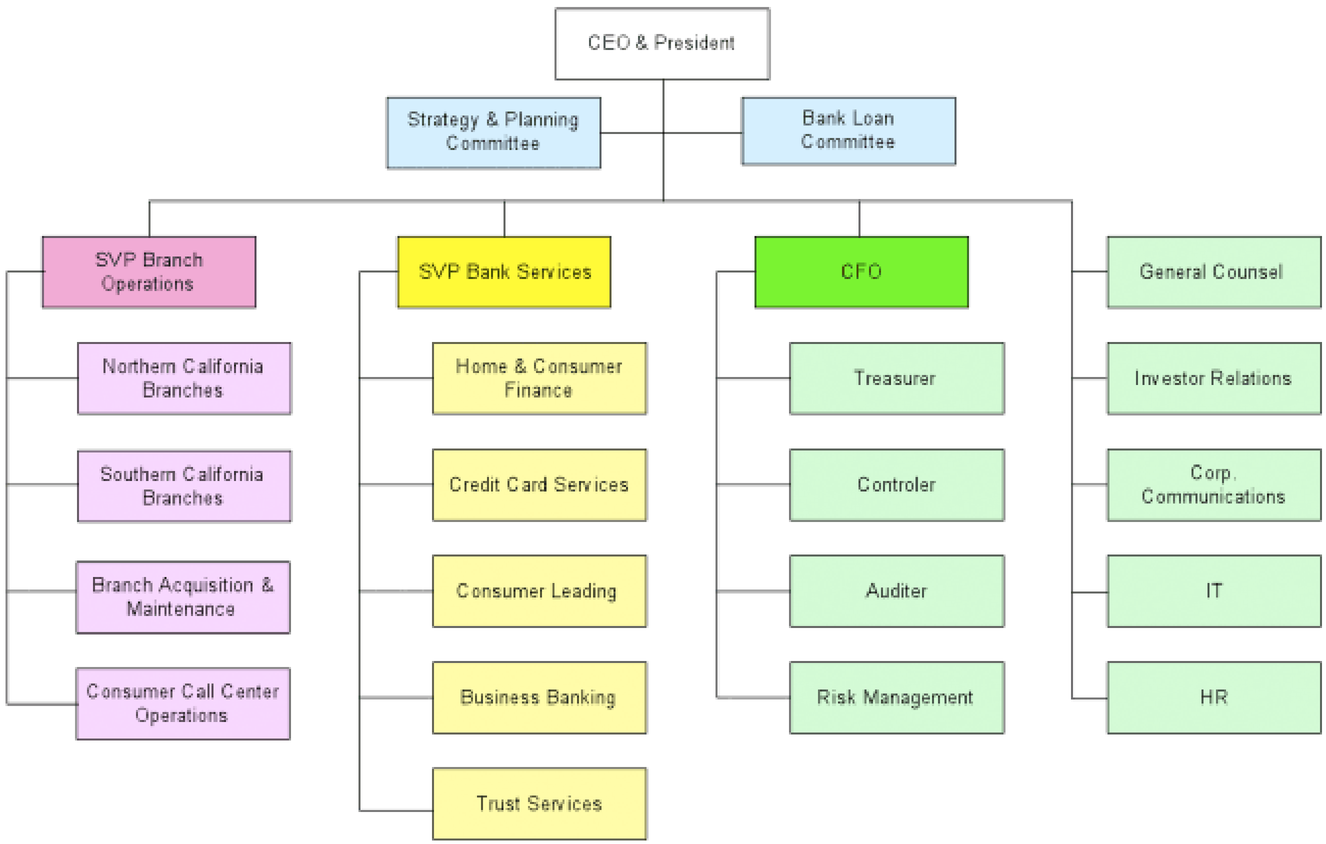

Figure 1. A typical organization for a small mid-1970s California bank.

Banks, in the 1970s, invariably thought of each product line or service as a value chain. Thus, if we asked a team of senior managers at our California bank about their value chains, they would probably come up with something like the model we have pictured in Figure 2.

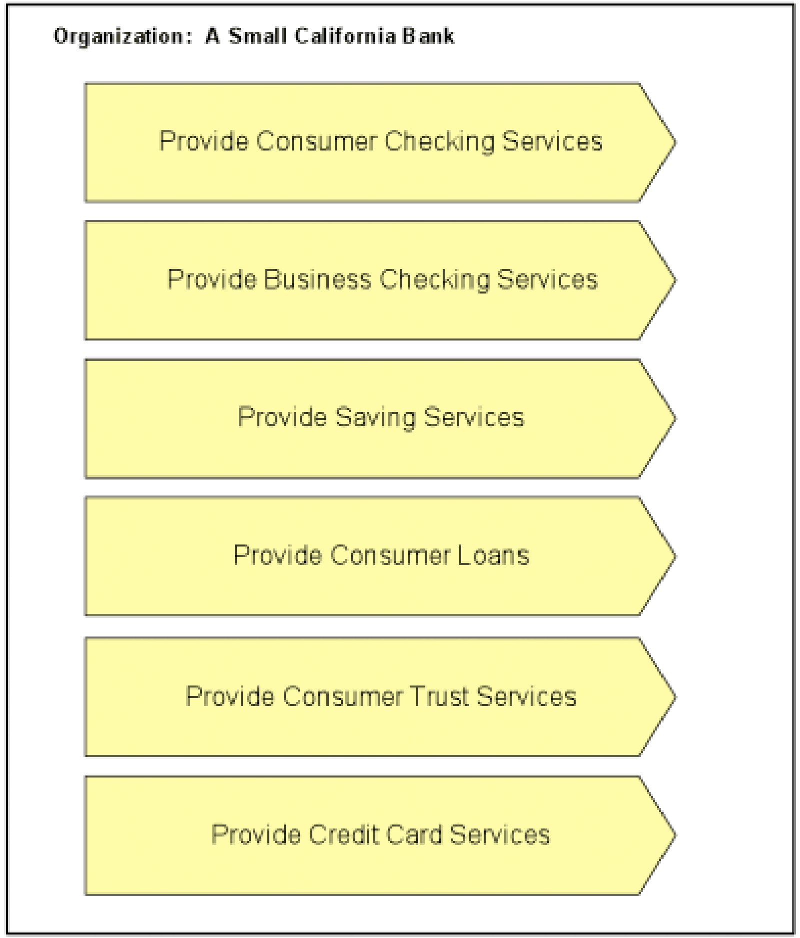

Figure 2. Possible value chains in a small California bank

In keeping with this approach, the banks of the 1970s built or acquired software systems to support each of their specific services. Information about customers using checking account services was maintained in a checking account database organized according to checking account number, and information about customers using saving account services was maintained in a saving account database organized according to saving account number. The focus was on the services and not on the customers and the kinds of services they were using.

By the late 1970s, leading banks began to realize the importance of the customer. Studies showed that customers with only one bank account generally chose a bank near their home or office and, when they moved, they moved their account to another bank located near their new residence or office. These same studies revealed that customers with multiple-accounts within the same bank were more likely to stick with that bank, even when they moved. At this point, banks began launching campaigns to encourage customers to open multiple accounts. Since the various databases were organized by account and the banks were using multiple databases as described above (relational databases didn't appear until the early 1980s), there was no obvious way to determine which customers had multiple accounts. This led to many attempts on the part of the banks to consolidate customer information - for example, banks did mailings to their customers promising to link their accounts if the customers would fill out and return a card listing the account numbers of all accounts they had with the bank.

We've come a long way since the late 1970s. All major banks now rely on relational databases which allow them to analyze and sort according to most any category - customer name, account number, social security number, type of service, zip code, etc. The use of ATM terminals and the Web has forced banks to think of all of the ways they interact with customers and think of how multiple services can be combined into packages that provide better and more efficient service.

Base Value Chains on Customer Value Propositions

For us, as process practitioners, however, the real issue is how best to define a value chain. We believe it is best to define value chains based on customer needs - not based on product lines or services. For example, we suggest that value chains be based on a Customer Value Proposition – a clear statement of the value provided to specific groups or customer types. Or, stated a bit differently, a clear statement of a customer need or problem for which your organization provides a solution.

For example, assume your organization sells books and you describe your value chain as *Sell Books*. Now, assume that you find your customer base shrinking as people shift to digital texts which they access via the internet. In hindsight, you realize that you shouldn't have thought of yourself as being in the business of simply selling books. You should have been in the business of providing reading material or content to customers – and that reading material or content can be delivered by various media. The customer is no longer simply buying books – the customer is buying information and content.

Consider our banking situation - Do individuals and families need checking accounts, or do they need financial services such as checking accounts, savings accounts, credit cards, online banking, ATM services etc? Customers need to manage their money. Specific bank products are just alternative ways of servicing those needs.

Combine Similar Processes

Let's consider the problem from yet another angle. Figure 3 shows three value chains described by a small bank. Originally, the architecture team described the Level 1 processes within each value chain using slightly different descriptions. However, a closer look at the processes revealed that there was little to no difference in the basic Level I processes and we modified the descriptions slightly to highlight the fact that they were, essentially, the same.

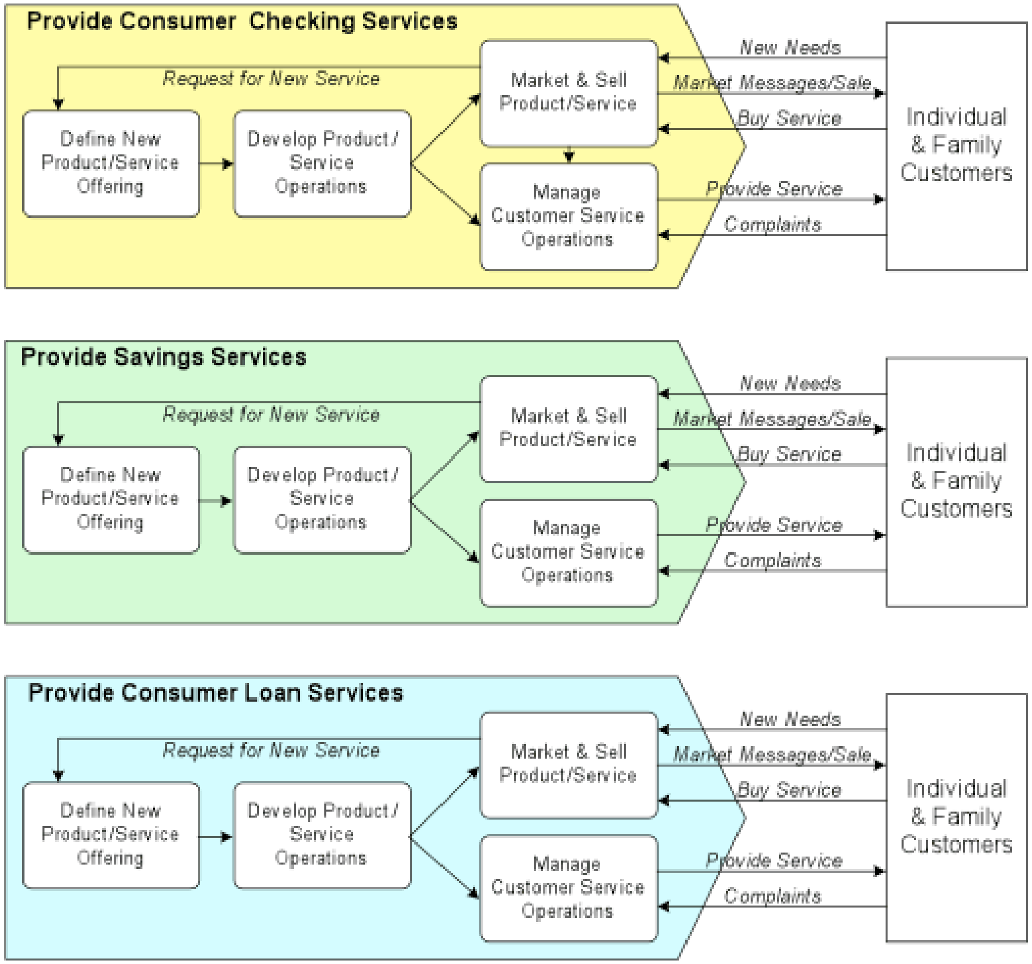

Figure 3. Three possible bank value chains.

Whenever you see a situation where an organization is selling somewhat similar products and services to a similar market you should probably combine them into a single value chain. Too often, however, product managers insist that their products are very different. One way to help break the “our silo is different from yours” attitude is to ask who cross sells services when management asks for a campaign to assure that customers have multiple accounts.

If you focus on the customer, and specifically on the needs of the customer, you will probably conclude that banks have one value chain for supporting individual and family customers who need financial services. (If there is a differentiation, it is more likely to be between high wealth customers, and average wealth customers. The value chain shown in Figure 4 is, in most cases, the proper solution for most banks selling solutions to individual and family customers.

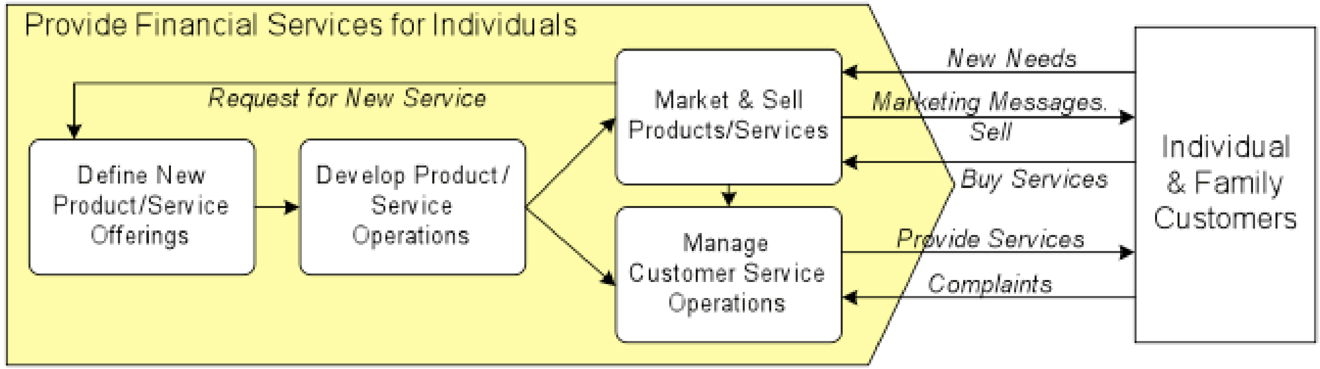

Figure 4. A single bank value chain for individual customers.

Figure 4 makes it easy to see where cross selling occurs since the same process is selling all the services to individuals. There will undoubtedly be differences in some level 2 or level 3 processes to accommodate differences among the specific products or services, but these are best kept at lower levels. The value chain should provide management and employees with a very high level understanding of how the organization creates value – and, should focus everyone on the major types of processes that the organization must measure and manage. Similarly, it is better to organize software applications and databases around high level processes than it is to focus, initially, on lower level product or service differences. With a model like the one shown in Figure 4, one can easily see how to modify or add products or services within the existing framework.

Keep Value Chains Focused on Common Processes and Value Propositions

So far we have talked about banking, but the same ideas apply to all markets. We still find architecture teams arguing about how to define their high level value chains, and we still find departments responsible for different products arguing that their product “deserves” its own value chain, as if a value chain were just another way of talking about a department or line of business.

The process perspective is all about finding out how an organization creates value. It’s about being very clear about what you do and about the nature of the value your organization creates – about what broad customer needs you satisfy. It’s about identifying common processes and activities and simplifying them, to the degree possible, allowing them to be combined and consolidated.

Start with the customer. Ask what the customer needs. Define the need in terms of a problem the customer faces and define how you and all possible competitors might seek to solve that problem. The alternative is to be blind-sided when some company you didn’t think of as your competitor, takes away your customers by solving a problem or providing for a need in a better way than your organization can.

Base your value chain on the customer value proposition stated as broadly as you can.

Look at the Level 1 processes within potential value chains. If they describe very similar activities, combine them into a single value chain. This assures that any improvements achieved will benefit all your product or service lines, and not just one.

If you take a top-down approach to defining processes within your organization, then the value chain is the place to begin. The value chains describe how your organization creates value for customers. In essence, value chains are the first test of whether the organization is really going to focus on the flow of work and the

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creation of value for customers. Get the value chains right and your subsequent process work will be much simpler and more efficient.

Till next time,

Paul Harmon

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