What is a Business Model?

“A business model describes the rationale of how an organization creates, delivers, and captures value”

From Business Model Generation
By Alexander Osterwalder & Yves Pigneur (2010)
Breaking it Down: Elements of a Good Business Model

- Business models help an organization look externally and internally simultaneously
  - Looking externally
    - Customer/member
    - Creating value
  - Looking internally
    - Infrastructure
    - Creating efficiencies

Why a Good Business Model Matters

- Clarity regarding
  - Your key customers – who they are, what they need
  - What you offer them in the marketplace – your unique value proposition
  - The infrastructure you need to deliver your offer – your activities, resources, and partners

- Helps you develop
  - Your revenue and cost structure

- Resulting in tools to build
  - A strong, sustainable organization
Getting Started: Building Your Business Model

- Four key steps in building your business model
  - Know your key customers and potential customers
  - Clarify your value proposition
  - Ensure your infrastructure can efficiently deliver on your promise to your customers/member
  - Fine-tune your cost/revenue structure

Business Model Canvas

- Partners
- Activities
- Resources
- Value Proposition
- Offer
- Relationships
- Segments
- Channels
- Costs
- Financial viability
- Revenues
- Profit

Step One: Know Your Customers

- Identify your key customers
  - Who are we creating value for?
  - Who are our **most important** customers?

Small Group Discussion

- Who are your **most important** customers and why?
- How does this influence your organizational priorities regarding daily work, allocation of resources, long-term vision?
Step One: Know Your Customers

• Clarify your customer relationships
  - What kind of relationship is most important to our customers and how do we develop that?
  - Is this different for different segments of our customer base?
  - How do we know this is true?

• Examine your channels of customer contact
  - How do our customers want to use our services?
  - How do our customers want us to reach them?
  - Are our customers’ expectations changing over time?
Thinking Deeply: Analyzing Your Market

• Analyze market demand
  - Are there sectors we could be reaching that match our definition of **most important** customers?
  - Are there clusters of potential clients served by distribution points we can tap?

• Listen to the market
  - What does market research tell us about customer needs, demands, preferences?
  - What does informal listening to customers, staff, and community partners tell us?

Thinking Deeply: Analyzing Your Market

• Mining the data – Listening to the Customers
  - How do our customers hear about us? How do we hear about them?
  - How do we actively pursue potential customers and encourage them to do business with us?
  - What do our customers like and not like about doing business with us? What suggestions do they have? What do they want to tell us?
Thinking Deeply:
Analyzing Your Market

• Mining the data – Listening to the Staff
  - What are the pain points in our lending, savings, or development services? Where do our customers drop out and why?
  - How are our processes bogged down or inefficient?
  - How might we improve our service to our customers?

Small Group Discussion

• How do you know what your customers and potential customers want?

• What channels do you use to listen to your customers, staff, volunteers, and community partners about customer needs?
Step Two: Clarify Your Value Proposition

- Develop and test your value proposition
  - What distinguishes us in the marketplace?
  - What problems do we help our customers solve?
  - How else can our customers solve these problems and why do they choose us?
  - What are we doing now that is not consistent with our core value proposition?

Thinking Deeply: Operating in a Competitive Marketplace

- How can you compete effectively in the marketplace?
  - How can we balance our commitment to mission with our need to generate sufficient revenue to balance our cost model?
  - What do our customers need and want from us and how does that match/not match what we offer or want to offer?
  - What options do our customers have for check-cashing and borrowing in the informal or formal financial sectors and how much do they use them?
Small Group Discussion

• What is your organization’s key value proposition and how does this match or not match what your most important customers want and need?

• Does your value proposition need any fine-tuning to make you more competitive in the marketplace or better able to fulfill your mission?

Step Three: Ensure Your Infrastructure Can Deliver on Your Promise

• Look at your key activities
  - What are our key lending activities?
  - What are our key savings, financial services, or programmatic activities?

• Examine the key resources necessary to deliver the value proposition to your customers
  – What kind of financial and non-financial resources are required to make our key activities successful?
Thinking Deeply: Exploring Potential for Expansion

- Could your organization benefit from geographic expansion?
  - Case study example: Latino Community Credit Union
- Is there a new or retooled product that could help you deepen your connection with your most important customers?
  - Case study example: Opportunity Fund

Step Four: Fine-Tune Your Cost/Revenue Structure

- Cost Structure
  - What are the most important costs inherent in our business model?
  - What would need to change to strengthen our sustainability, and looking forward, our ability to grow?
- Revenue Structure
  - What are our customers really willing to pay for? (How do we know this?)
  - Does this match what we are charging for our products and services?
Thinking Deeply: Efficiency Matters

• Efficiency matters
  – Neither borrowers nor funders should bear the cost of a lending organization’s inefficiency, no matter how well-intended the mission
  – Inefficiencies may not be obvious internally or externally
  – Accurate cost data and careful analysis of operations may open doors for greater efficiencies without compromising mission

Thinking Deeply: Building Effective Partnerships

• We can’t do everything ourselves
  – It requires too many resources
  – We’re better at some things than others
• Collaboration is essential for success
  – We can learn from each other
  – We can share resources while acknowledging our competition with each other
  – We can retain our unique qualities while collaborating
Thinking Deeply: Building Effective Partnerships

What does collaboration look like?

• Programmatic partnerships
  – Shared technical assistance programs
  – Joint grant applications and project implementation

• Financial partnerships
  – Market segmentation and loan referral process
  – Shared lending process
  – Loan participation
  – Liquidity management

Thinking Deeply: Building Effective Partnerships

What does collaboration look like?

• Shared services
  – Outsourcing specific functions (loan underwriting, data management, collections services)
  – Operating platforms (back office operations)
  – Product development (savings and credit building products)
  – Technology to accelerate the lending process (tablets, text messages for loan payments)
Small Group Discussion

• Does your organization have any partnership relationships related to customer referral, lending or savings services, back-office operations, or other?

• Are there any types of collaboration you would be interested in exploring?

Thinking Deeply: Pricing Strategies

• The importance of pricing products and services for overall sustainability, which does not necessarily mean self-sufficiency
  – Role of external subsidy
  – Role of internal subsidy

• Funders may influence pricing structure
  – Foundations funding specific loan programs may specify rate to accomplish social impact objectives
  – Government programs may include interest rate caps that do not cover true cost of lending, including compliance and reporting requirements
Thinking Deeply: Pricing Strategies

- Staff and borrower perceptions about pricing
  - Staff may be apologetic when describing fees and rates to potential borrowers
- Borrowers may be more sensitive to interest rate than to the actual cost of borrowing
  - Some lenders cover more of their lending costs through fees rather than interest rate
- Education is key!
  - A chart comparing the true cost of borrowing from your CDFI, credit cards, and payday lenders is helpful

Thinking Ahead: Deepening Impact

- Build a sustainable organization in order to
  - Serve more clients
  - Increase lending, savings, programmatic activity
  - Expand geographic coverage
  - Use technology to offer more products, convenience
  - Collect and analyze data in order to tell our story effectively and continue to grow
Review: Your Business Model

• A coherent business model is critical to sustainability and growth
• Four integrated business model components:
  - Your customers
  - Your value proposition
  - Your infrastructure
  - Your cost/revenue structure

Linking The Business Model to Your Action Plan

Your Action Plan can include some or all of the following steps:

• First: Think about your key customer segments and your unique value proposition (what you offer them that is special)

• Second: Examine how you deliver on that promise to your customers (your front and back office operations, your products and services, your community partners)

• Third: Evaluate the value and sustainability of your bottom line (both impact and financial)
## Action Plan

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