

Strengthening Small & Emerging CDFIs

Business Model: External Environment

Ginger McNally, Opportunity Finance Network

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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)



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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



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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



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Getting Started: Building Your Business Model

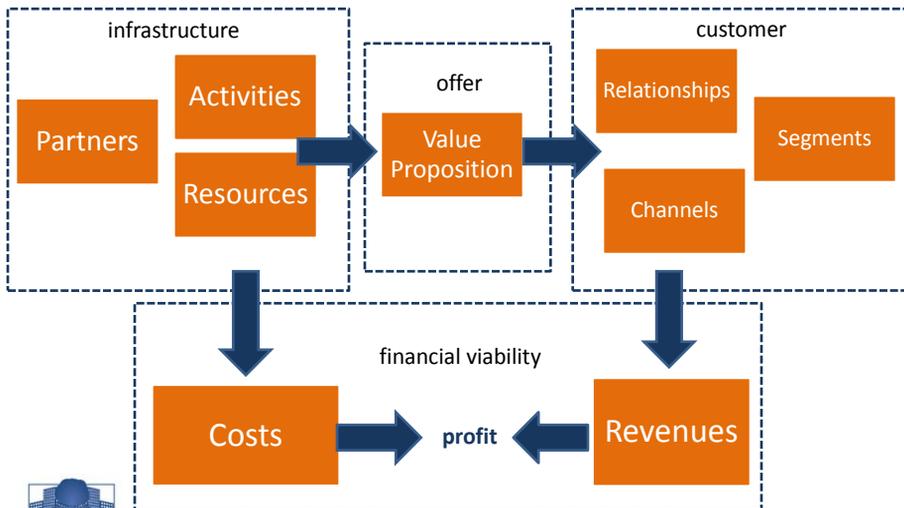
- Four key steps in building your business model
 - Know your key customers and potential customers
 - Clarify your value proposition
 - Ensure your infrastructure can efficiently deliver on your promise to your customers/member
 - Fine-tune your cost/revenue structure



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Business Model Canvas



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Step One: Know Your Customers

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



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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?



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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?



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Step One: Know Your Customers

- 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?



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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?



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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?



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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?



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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?



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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?



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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?



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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?



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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?



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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



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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?



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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



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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



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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



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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)



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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?



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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



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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



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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



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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



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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)



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Action Plan

Action Lead Timeline Resources

