

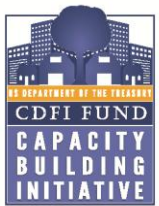
Scaling Up Microfinance



Progreso Financiero: A Case Study of Business Model Innovation

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Organizational Mission and Value Proposition

Progreso Financiero (Progreso), a fast growing, for-profit company with a social mission, offers a new approach to consumer finance. Launched in 2005, Progreso has positioned itself as a social enterprise committed to providing fair and transparent credit to the unbanked/underbanked Latino population, primarily in California and Texas. The company's mission is "to help its customers build credit in the United States and gain access to better lives and mainstream financial services." The value Progreso seeks to provide to its clients is the ability to build a positive payment history in the United States and to facilitate economic and financial security.

Structure and Scale

In 2009, in recognition of its work serving underserved low-to-moderate income communities, the company was certified as a community development financial institution (CDFI). The designation allows Progreso to partner with financial institutions to make investments into its loan fund and receive Community Reinvestment Act (CRA) credit. Early lenders included Silicon Valley Bank and Bank of America, which, together, provided a \$25 million credit facility in 2010.¹ The company also raises funds on the capital markets.

By year-end 2012, the company will have disbursed almost \$400 million in nearly 400,000 loans and will have an outstanding loan portfolio of approximately \$160 million. As evidenced by this demand for services, the company has tapped a need for an affordable small-dollar credit option by a large consumer market. As a result, Progreso's yearly growth has been explosive. Now with over 350 employees operating in two states, it hopes to reach profitability by the end of 2012 after a seven year startup period. Currently, with 75 retail sales points in locations such as Latino supermarkets, Progreso also plans to add other products in the future as its relationships with unbanked customers grow.

Target Market

As stated above, Progreso has a target market that includes the unbanked/underbanked Latino population, particularly in California and Texas. The company cites that roughly fifty percent of its clients do not have a formal credit history prior to obtaining their first loan with Progreso. Despite its consumer finance focus, the organization also serves a substantial number of informal microentrepreneurs (such as handymen, swap meet vendors, or those engaged in janitorial services or lawn care) who use the small loans to invest in their own businesses.

Products and Services

Progreso's core products include small-dollar installment loans and prepaid cards that are offered to clients at disbursement. Loans are offered for consumer and business purposes to individuals in

¹ "Progreso Financiero Secures \$25 Million Credit Facility From Bank of America and Silicon Valley Bank to Fuel Growth". September 7, 2011. Accessed via www.progressfin.com.

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Progreso's target market. In addition, the company reports its clients' payment histories to the credit bureaus to assist them in establishing a credit history.

With an average loan size for new loan recipients of \$1,000 over 10 months and a loan limit of \$2,500, Progreso currently processes more than 15,000 loans per month.

The company processes and disburses the majority of its loans via its own *Ventiva* prepaid card in fewer than three days. Progreso's *Ventiva* reloadable prepaid card (FDIC insured) serves multiple functions. For one, it gives clients the option of a quicker turnaround to load the funds of the loan on the card and use them immediately. This can be especially important for clients who are looking to use the loan funds to cover an emergency expense. Second, the card provides a large segment of Progreso's unbanked clients who have never used a debit/credit card a "near banking experience."² The company believes that for those clients in particular, the card allows them to build positive behavior around managing the money on the card. The company also uses opt-in mobile text messages to let clients know when the card has been used and for payment reminders. Even clients who previously had some banking experience (those who have a bank account, for example), continue card usage after their loan funds have been exhausted.

Pricing

Progreso's model has some unique features. First, it does not offer rollover loans. Rather, it offers credit through fully amortizing installment loans. Second, its rates are set at an average of 36% APR (and include origination fees and interest), with potential decreases for repeat customers after completing repayment. This is a vastly different approach than that taken by lenders in the payday loan market that charge as much as 400% APR to a similarly underbanked clientele.

Other for-profit lenders operating in similar target markets have noted that their clients appear relatively less concerned with price and more concerned with access and speed. And, as Progreso's growth rates indicate, rapid and streamlined access to credit appears to resonate with the company's target market.

Yet, Progreso believes that price does matter. In a scan the Aspen Institute conducted of for-profit lenders serving microentrepreneurs,³ Progreso was the only organization to fold its origination fees into its overall pricing, providing the effective APR versus the typical nominal APR cited by most lenders. At these pricing levels, the company seemingly faces a trade-off between quick profitability (akin to those that payday lenders might enjoy) and the longer-term process of building a large-scale, loyal client base among this large unbanked/underbanked market segment. Progreso's philosophy is not only to become profitable, but also to provide its customers with access to good, affordable financial products.

Progreso's Model

Progreso's overall strategy is to embed itself among its target market – focusing on the unbanked/underbanked Latino population. The company uses retail locations to support this close

² Gustavo Lasala, Senior Director of Sales and Stores. November 14, 2012.

³Gomez, L. & E. Edgcomb. "A Newly Crowded Marketplace: How For-profit Lenders are Serving Microentrepreneurs," accessed <http://fieldus.org/publications/ForProfitLenders.pdf>



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customer contact. Depending on the geographic location and assessment of the local market, Progreso has developed two retail models.

1. The first is the company's main format, which is a kiosk located within another store, such as a Latino supermarket. The kiosks comprise about 100 square feet and are staffed by two to three sales associates.
2. The second model is a standalone Progreso outlet. There are two variations: one smaller and the other larger (the larger format can be up to 1200 square feet). The standalone locations tend to serve a larger number of clients and have additional convenient options for its customers. For example, some standalone locations have ATM-like machines which accept cash to make loan payments. These locations provide somewhat of a different customer experience and are conducive to allowing sales associates more quality time with the client.⁴

Progreso uses a credit-scoring model that takes into account approximately 600 unique attributes to score prospective borrowers with thin or no credit files. A Progreso sales associate uses the scoring model, which is constantly updated based on new data, to determine pre-approval or denial for a potential client almost instantly. Centralized processors, then, verify the basic documents necessary to disburse the loans. As stated previously, loan funds are typically disbursed in less than three days.

This does not mean that face-to-face client interaction is not important. Sales associates emphasize a fairly hassle-free application process with a quick, almost immediate, turnaround and a high level of personalized customer service. In this respect, Progreso's approach to small-dollar lending somewhat mirrors that found in international microfinance.

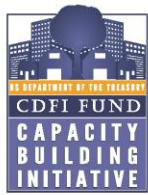
The Path to Scale

The organization did not achieve this scale overnight. It took time, experimentation and learning to be able to develop its current model. At one point in 2009, the company was struggling to grow its sales as well as to define and assess its cost of customer acquisition. A board member lamented: "The cost of customer acquisition never seems to be lower than the lifetime value of the customer. You need to develop a path to profitability based on the unit economics of a single loan, and then define the volume required to get the company to breakeven."⁵

In response to this challenge, the company did several things. It systematized and improved its documentation of the organization's policies and procedures. Additionally, Progreso focused on its sales management team. It developed training for both sales associates *and* sales managers, and created a sales "on-boarding process" that offers an in-depth opportunity to learn the knowledge and skills the position entails. These changes reflected Progreso's new emphasis on creating a high performing sales team rather than just focusing on developing a high performing sales associate.

⁴ Gustavo Lasala, Senior Director of Sales and Stores. November 14, 2012..

⁵ Arar Han, Mark Leslie, and James M. Lattin. "Progreso Financiero: Growing Sales". Stanford Graduate School of Business. Case E-395, February 21, 2011.



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Finally, Progreso adjusted its incentive structure to help drive quality and increased sales. Progreso's incentive structures now include not only monetary rewards, but also offer staff a career path and place a strong emphasis on staff motivation. Many within the company's sales force discuss the notion of "purpose" and self-empowerment when asked about how they feel about working for Progreso. For many sales associates, the work provides the opportunity to acquire new knowledge and skills.⁶ For some, it may be the first time they gain knowledge about credit and financial education useful to other local community members. Recruits are selected for their knowledge of and experience in working with the local community, in addition to their perceived motivation. Training for associates consistently focuses on the rewards and benefits of credit, as well as the consequences of not managing credit well.

⁶ Gustavo Lasala, Senior Director of Sales and Stores. November 14, 2012.



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Questions for Discussion

- Who are Progreso's customers?
- What's the value proposition Progreso is making to these customers?
- What's innovative in this model/interesting to you in this model? What makes it different than others? Consider all components of the framework:
 - Channels
 - Partnerships
 - Revenue streams
 - Activities
 - Resources, and
 - Structure as a for-profit
- Does its pricing model make sense to you? Any issues it raises?
- What ideas does this case suggest to you about opportunities for innovation in your business models?
- Any lessons you draw from this case about improving business models for microfinance?
- Any additional questions or issues?