

# Strengthening Small & Emerging CDFIs

## Business Model: External Environment

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June-October, 2013



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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

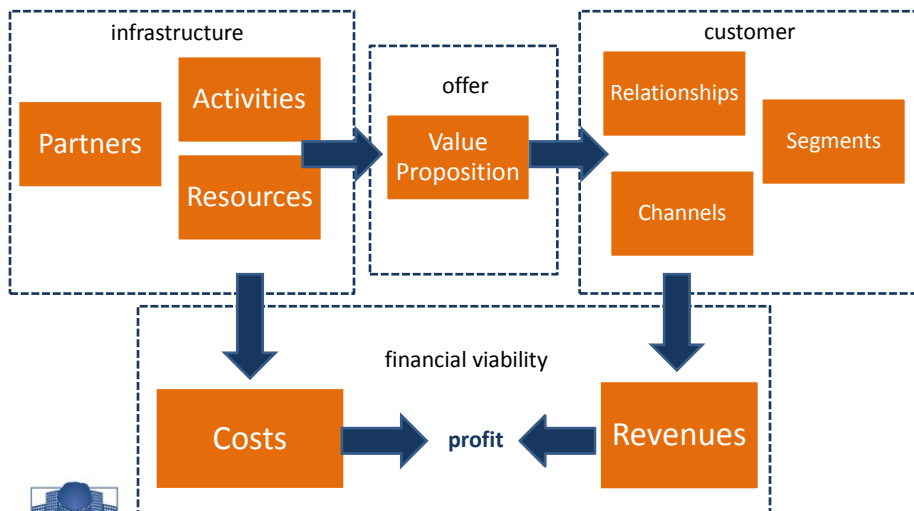
- Four key steps in building your business model
  - Know your key customers and potential customers
  - Clarify your value proposition
  - Ensure your infrastructure can efficiently deliver on your promise to your customers/member
  - Fine-tune your cost/revenue structure



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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

