

# Expanding CDFI Coverage in Underserved Areas

## Expansion Strategies for Growth

### Part One: Operational Efficiencies

Ginger McNally, Opportunity Finance Network

October 6, 2015

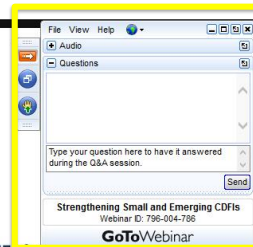


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## GoToWebinar

### CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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## What is the *Expanding CDFI Coverage in Underserved Areas Initiative*?

- The series will provide specialized training and technical assistance to certified and emerging Community Development Financial Institutions (CDFIs) seeking to expand their reach into underserved communities that currently lack a CDFI presence.
- The workshops include content that is applicable to all CDFI organizational structures, including loan funds, credit unions, banks, and venture capital funds.



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## Training Partners



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## About the Training Partners

- **Community Development Bankers Association (CDBA)** is a national trade association of the community development bank sector. CDBA is the voice and champion of banks and thrifts with a mission of serving low and moderate income communities.
- **Community Development Venture Capital Alliance (CDVCA)** is a network of community development venture capital funds, which provide equity capital to growth businesses in low-income communities to create good jobs, productive wealth, and entrepreneurial capacity.
- **National Federation of Community Development Credit Unions (NFCDU)** is a national association for community development credit unions providing capital, advocacy, technical assistance, training to support innovative services for low-income consumers.
- **Opportunity Finance Network (OFN)** is a leading national network of community development financial institutions (CDFIs) investing in opportunities that benefit low-income, low-wealth, and other disadvantaged communities across America.



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## Presenter



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## Agenda

- Part One (October 6, 2:00 pm EDT)
  - Planning for Expansion: Business Model Canvas
  - Operations: Lending Life Cycle
- Part Two (November 17, 2:00 pm EDT)
  - Technology
  - People and Culture
  - Leading Organizational Change



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# Planning for Expansion: Business Model Canvas

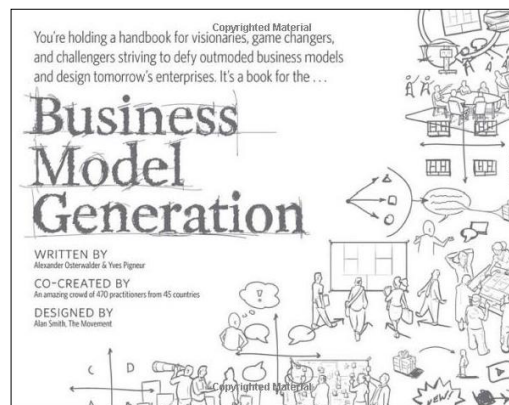
- A key strategic tool for expansion: Business Model Canvas
- A **business model** describes the rationale of how an organization creates, delivers, and captures value.
- The **business model canvas** is a strategic management and entrepreneurial tool. It allows you to describe, design, challenge, invent, and pivot your business model.



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## A Business Model Handbook



From Business Model Generation  
By Alexander Osterwalder and  
Yves Pigneur (2010)



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# The Business Model Canvas

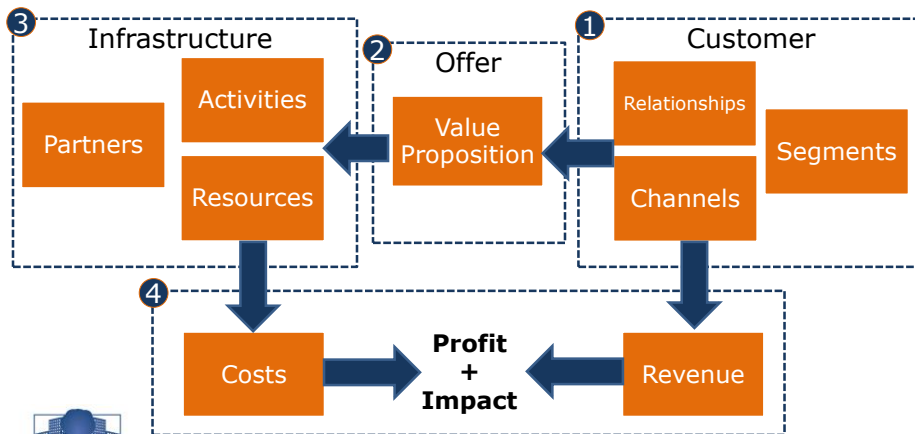
The Business Model Canvas can help you to identify and connect the dots between:

- Your **most important** customers
- Your value proposition in the marketplace
- Your infrastructure
- Your bottom line – financial and impact



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# Business Model Canvas



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## How to Use the Business Model Canvas

- Step One: Identify your most important customer segment(s)
- Step Two: Define your value proposition in the marketplace
- Step Three: Examine your organization's infrastructure
- Step Four: Assess your bottom line – financial and impact



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## Thinking Strategically with the Business Model Canvas

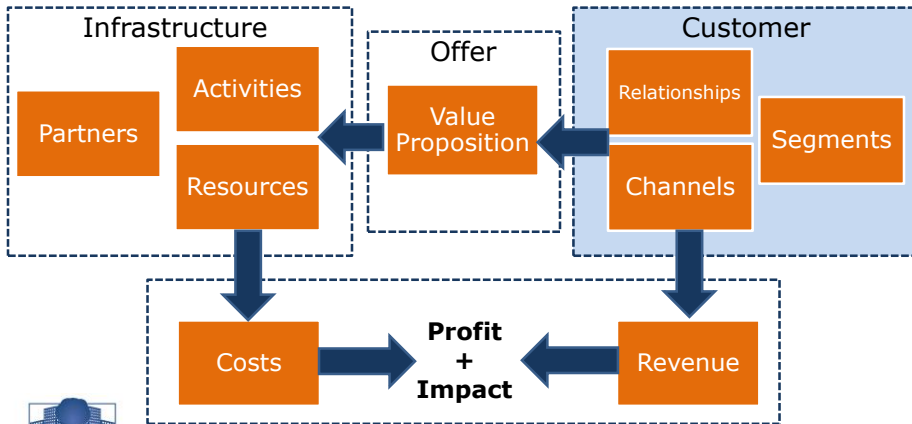
Now, step back and ask yourself these strategic questions:

- Do these customer segments want what we offer and will they pay for it?  
*(Customer + Value Proposition)*
- Is our offering in the marketplace efficiently supported by our internal processes?  
*(Value Proposition + Infrastructure)*
- Does our business model generate sufficient net income and impact?  
*(Customer + Offer + Infrastructure = Profit and Impact)*



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# Business Model Canvas



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## Focus on the Customer

*"Customers don't care about your solution. They care about their problems."*

*Dave McClure, [500 Startups](#), cited by Ash Maurya, [Running Lean](#)*



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## Focus on the Customer

Two most important questions:

1. What customer problems are you solving?
2. Who are your most important customer segments within the context of your strategic expansion priorities?



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## Focus on the Customer

What customer problems are you solving?

1. Is it something customers want?  
*(Must have)*
2. Will they will pay for it? If not, who will?  
*(Viable)*
3. Can it be solved?  
*(Feasible)*



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## Focus on the Customer

- Who are your customers now?
  - What do you know about your current customer base?
- Looking forward, who will be your most important customers:
  - Identify your key customers within the context of your expansion strategy
  - Who will you create value for?
  - What impact will it have on them and on you?



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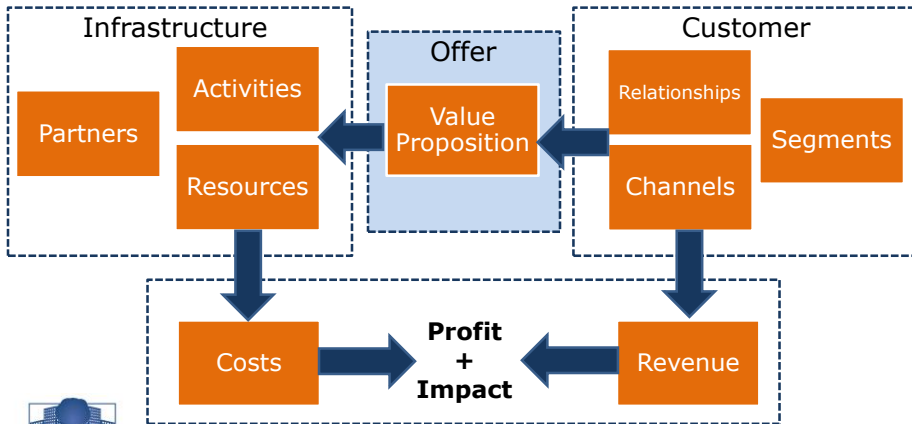
## Focus on Your Most Important Customer

- Looking forward:
  - Who will **not** be your most important customers?
  - Resource allocation – Focus time and money on your most important customers
  - Partner referral - Quickly direct non-priority applicants to partners



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# Business Model Canvas



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# Value Proposition

*"While ideas are cheap, acting on them is quite expensive."*

Ash Maurya, *Running Lean*



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## Value Proposition Definition

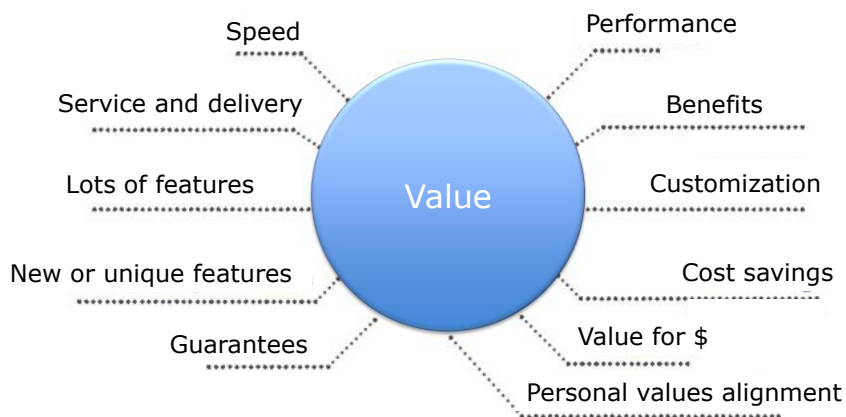
- A value proposition is a **positioning statement that explains what benefit you provide for whom and how you do it uniquely well**
- It describes your target customer, the customer problem you solve, and why you're distinctly better than the alternatives



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## Value Proposition: Creating Value



Source: [Step Change Marketing](#)

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## Value Proposition and Expansion Opportunities

- Think from the customer's perspective
- Create expansion opportunities
- An example: Online lenders
  - Customer problem: high opportunity cost to apply for traditional loan, frequent turn-down
  - Online lenders' solution: easy application, fast loan decision and funding



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## Expansion Grid

- The expansion grid helps organizations identify new ways to create value.
- The four categories of the grid are:
  - **Eliminate:** Which of the factors that is taken for granted should be eliminated?
  - **Raise:** Which factors should be raised well above the industry's standard?
  - **Reduce:** Which factors should be reduced well below the industry's standard?
  - **Create:** Which factors should be created that the industry has never offered?



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## Expansion Grid: Online Lenders

<p><b>Eliminate</b></p> <p>Long wait for decision Cumbersome application process</p>	<p><b>Raise</b></p> <p>Loan fees, interest rates Loan volume Loan default rates</p>
<p><b>Reduce</b></p> <p>Wait time for a loan decision Delayed loan closings Operating expenses for lender</p>	<p><b>Create</b></p> <p>Fast turn-around time on loan decision and funding Use of search engines to find customers</p>



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## Value Proposition

- Connect the dots with your value proposition
  - Your most important customer segment(s)
  - The customer problem you are solving
  - What you offer in the marketplace



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## Elements of a Value Proposition

- **For** (target customers)
- **Who are dissatisfied with** (the current alternative)
- **Our product is a** (new product)
- **That provides** (key problem-solving capability)
- **Unlike** (the product alternative)



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## Value Proposition: CDFI Example

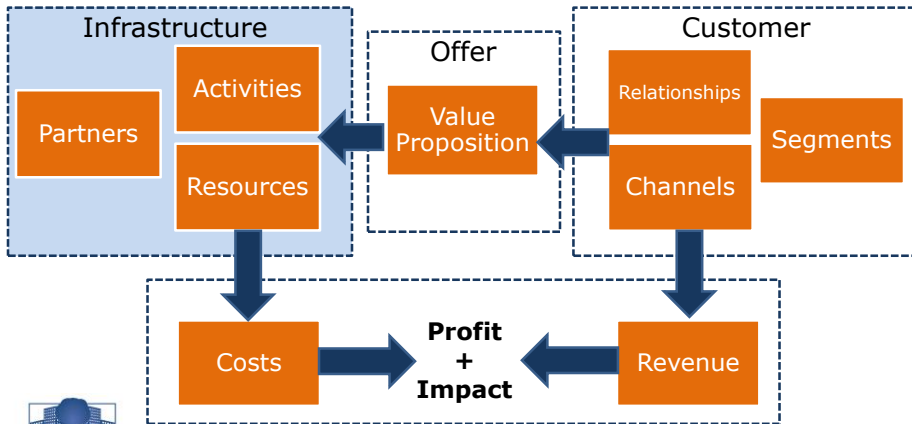
- **For** low-income, low-wealth people of color, immigrant communities, and women
- **Who do not** have access to a commercial bank loan
- **Our product** is small business loans with longer terms
- **That provide** affordable repayment schedule
- **Unlike** commercial mainstream banks



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# Business Model Canvas



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## Infrastructure: Operational Efficiencies in Lending

*"Waste is any human activity which absorbs resources but creates no value."*

Womak and Jones, *Lean Thinking*



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## Operational Efficiency: Lending Life Cycle

- Two-step process to understand and improve your lending efficiency
  - Identification of pain points in your Lending Life Cycle
  - Process mapping to identify solutions

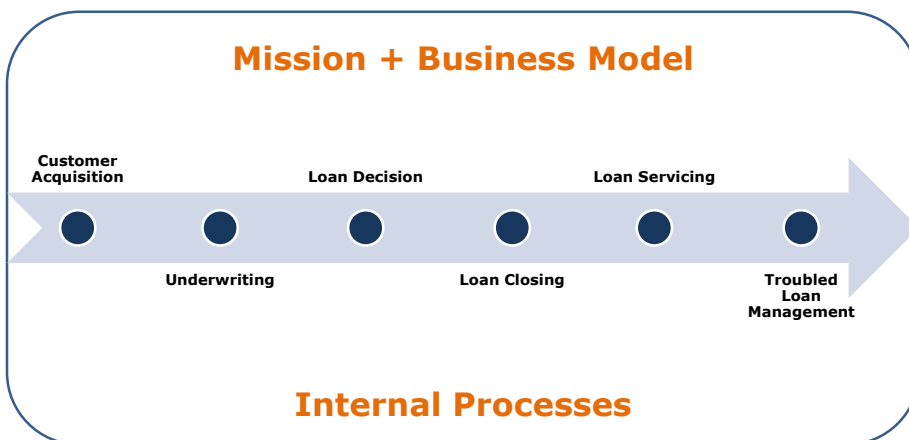


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## Lending Life Cycle

### Mission + Business Model



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## Identification of Pain Points in Your Lending Life Cycle

- Step One: Review your organization's processes for each of the six stages of the Lending Life Cycle
  - Customer Acquisition
  - Underwriting
  - Loan Decision
  - Loan Closing
  - Loan Servicing
  - Troubled Loan Management



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## Identification of Pain Points in Your Lending Life Cycle

- Step Two: Assign a rating to each stage
  - Strong: Supports growth in lending
  - Moderate: Mixed, requires change to be able to increase lending
  - Weak: Needs serious work, impedes growth



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## Fixing the Pain Points in Your Lending Life Cycle

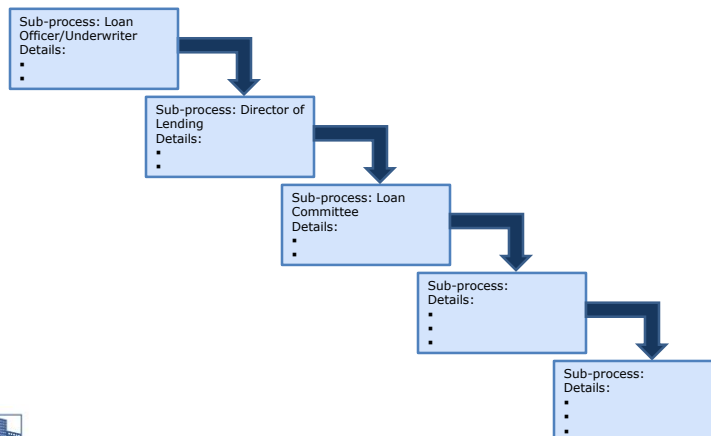
- Step One: Select the most critical stage(s) of the Lending Life Cycle impeding your organization's ability to grow its lending
- Step Two: Outline each operational step of that stage using the Processing Map tool
- Step Three: Identify ways to change operations to support efficiency and growth in lending
- Step Four: Implement changes



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## Process Map Example: Loan Decision



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## Process Map Example: Loan Decision - Current

- Loan Officer/Underwriter sends each loan write-up to Director of Lending for review (3 days)
- Director of Lending reviews write-up, recommends approval, sends to Loan Committee (5 days)
- Loan Committee meets in person with Loan Officer and VP Lending, discusses the deal, decides to approve/modify/decline (14 days)



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## Process Map Example: Loan Decision – Change

- Authorize Loan Officer/Underwriters to approve loans up to \$X without Director of Lending review
- Shorten time of loan review by Director of Lending to 3 days prior to sending to Loan Committee
- Authorize Loan Committee to electronically review loans up to \$XX within three days of receipt



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# Operational Efficiency: Lending Life Cycle Process Goals

## Setting Lending Life Cycle process goals

- Time: How much time should each stage take?
- Staffing: What hours and key capacities?
- Deliverables: What key deliverables will you measure?



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# Operational Efficiency Example: Lending Life Cycle

## Cycle Time

## Input/Output



Lead to application

Cost per dollar lent or per loan made

Application to underwriting

Customer satisfaction

Underwriting to closing

Conversion rates

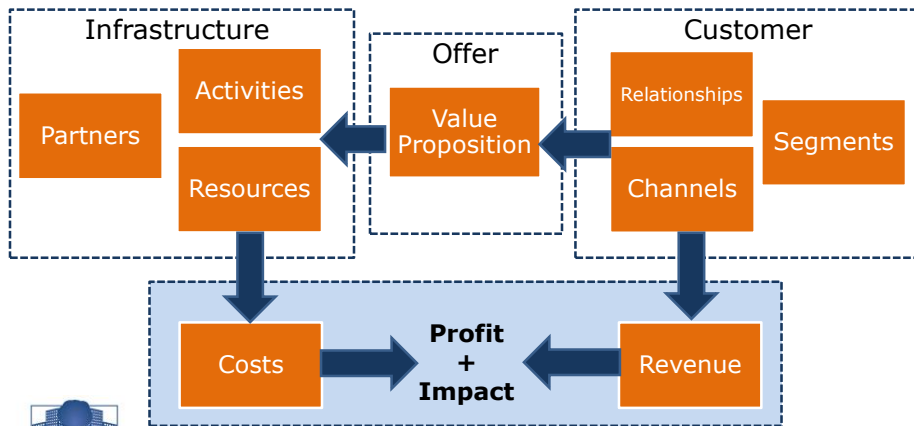


Source: FIELD at the Aspen Institute

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# Business Model Canvas



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## Your Bottom Line: Financial and Impact Goals

- Financial Goals
  - Calculate costs and revenue of your business model
  - Adjust as necessary to meet financial goals
- Impact
  - Define your most important impact goals
  - Measure, review, modify business model as needed



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## Review – Customer Segments and Value Proposition

- Thinking strategically with the Business Model Canvas
  - Customer segment(s)
    - Customer problems you are solving
    - Most important customers for expansion
  - Value Proposition
    - Eliminate/Reduce/Raise/Create Expansion Grid



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## Review – Infrastructure and Bottom Line

- Infrastructure – Operations
  - Lending Life Cycle
    - Identification of pain points
    - Process Map to eliminate barriers to growth
    - Process goals: time, staffing, deliverables
- Bottom line: Profitability and Impact
  - Financial Goals
  - Impact Goals



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# Questions?



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## Expanding CDFI Coverage in Underserved Areas Webinar Series

- Upcoming topics include:
  - Using Market Analysis for Expansion
    - *Tuesday, October 27<sup>th</sup> at 2pm ET*
  - Expansion Strategies for Growth, Part Two: Technology, People, Culture, and Leading Organizational Change
    - *Tuesday, November 17<sup>th</sup> at 2pm ET*
  - Marketing Strategy, Tactics, and Storytelling
    - *Tuesday, December 8<sup>th</sup> at 2pm ET*
  - Understanding CDFI Impact
    - *Tuesday, January 12<sup>th</sup> at 2pm ET*



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