

Strengthening Small & Emerging CDFIs

Innovative Business Models to Strengthen Sustainability and Impact

Ginger McNally
Opportunity Finance Network

December 5, 2013



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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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Strengthening Small and Emerging CDFIs Task Order

- **Goal:** Increase capacity of more than 70 CDFIs to strengthen financial sustainability and increase community impact.
- **Focus:** Business models that work to support sustainability and impact, understanding stages of organizational growth, and change management.
- **Approach:** Five trainings, five mentored cohorts, one-to-one technical assistance, virtual resource bank.
- **Results:** Each CDFI developed an Action Plan with implementation supported by mentored cohorts.

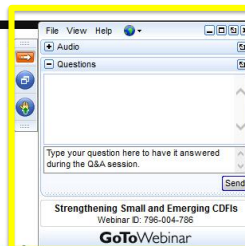


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Presenter



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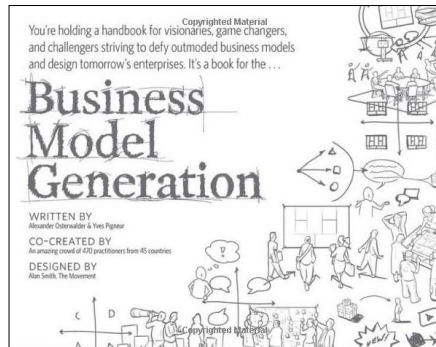


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What is a Business Model?

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

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



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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 on your promise – your activities, resources, and partners
- Helps you develop
 - Your revenue and cost structure
 - Your focus on deepening impact in your communities
- Resulting in tools to build
 - A strong, sustainable organization



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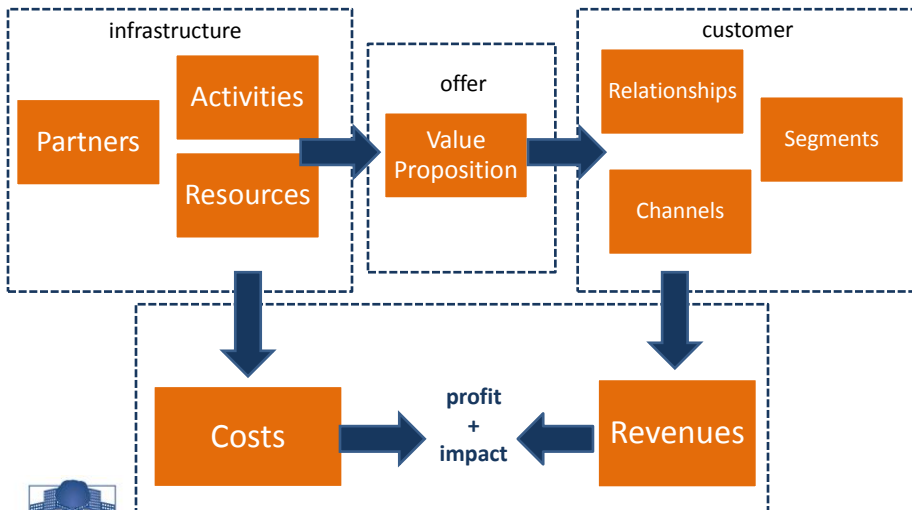
Getting Started: Building Your Business Model

- Five 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 and your impact objectives



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Business Model Canvas



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Step One: Know Your Customers

- Identify your key customers
 - Who are you creating value for?
 - 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 the key elements of your customer relationships
 - What kind of relationship is most important to your customers and how do you develop that?
 - Is this different for different segments of your customer base?
 - How do you know this is true?



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Step One: Know Your Customers

- Examine your channels of customer contact
 - How do your customers want to use your services?
 - How do your customers want you to reach them?
 - Are your customers' expectations changing over time?



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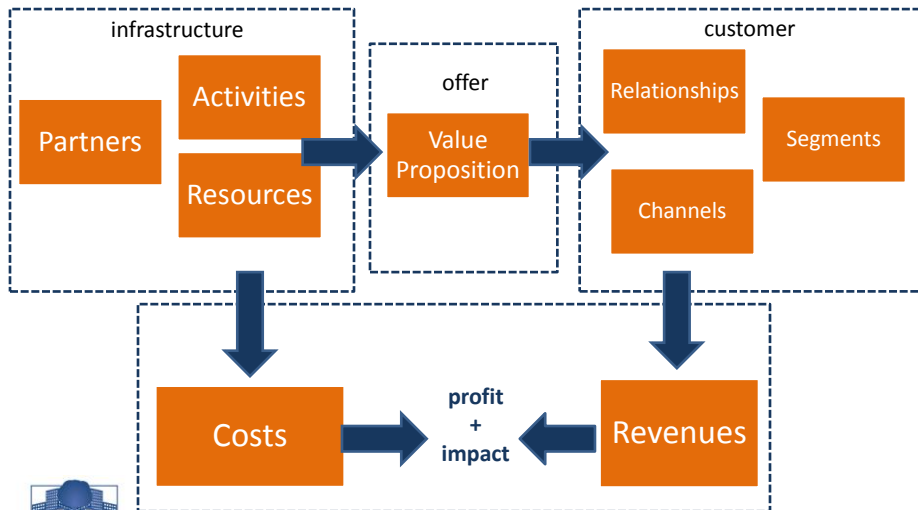
Step One: Know Your Customers

- Customer acquisition and retention is an ongoing process
 - How well do you understand your customers' experience working with you?
 - Do you have a customer acquisition and retention plan that is consistent with your organization's strategic plan and reflected in your budget?
 - What marketing tactics do you use to bring the plan to life?



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Business Model Canvas



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Step Two: Clarify Your Value Proposition

- Develop and test your value proposition
 - What distinguishes you in the marketplace?
 - What does market research tell you about customer needs, demands, preferences?
 - What empirical data do you use to determine customer needs?
 - What channels do you use to listen to customers, staff, and community partners?



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Step Two: Clarify Your Value Proposition

- Listen to the market
 - What problems do you help your customers solve?
 - How else can your customers solve these problems and why do they choose you?
 - How can you find out more about potential customers who are **not** choosing you and why?



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Step Two: Clarify Your Value Proposition

- How can you compete effectively in the marketplace?
 - What is your organization's key value proposition and how does this match or not match what your most important customers want and need?
 - What options do your 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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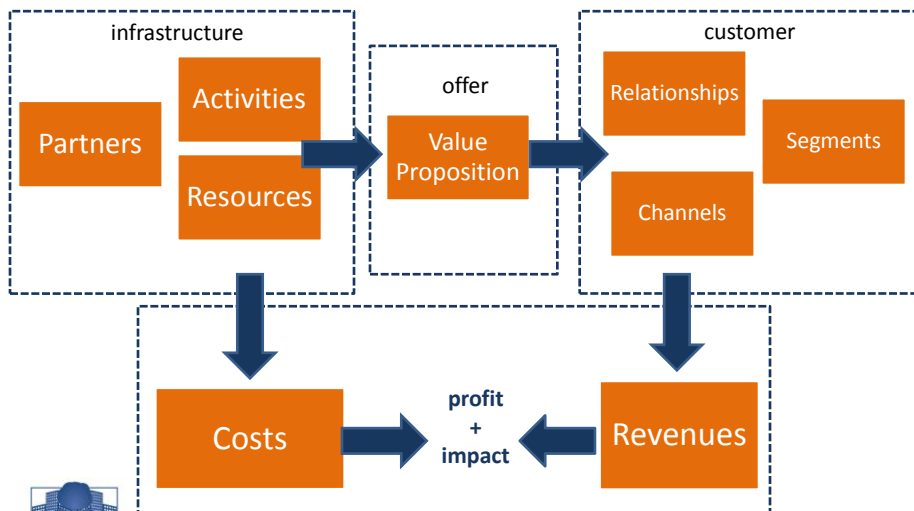
Step Two: Clarify Your Value Proposition

- Linking your value proposition with your market
 - How do you balance your commitment to mission with your need to generate sufficient revenue to balance your cost model?
 - Does your value proposition need any fine-tuning to make you more competitive in the marketplace or better able to fulfill your mission?
 - What are you doing now that is **not** consistent with your core value proposition?



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Business Model Canvas



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Step Three: Ensure Your Infrastructure Can Deliver on Your Promise

- Look at your key activities
 - What are your key lending activities?
 - What are your key savings, financial services, or programmatic activities?
 - How do they match your value proposition to your most important customers?
- 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 your key activities successful?



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Step Three: Ensure Your Infrastructure Can Deliver on Your Promise

- Look at your key partners
 - What kind of collaborations and reciprocal relationships do you have presently?
 - How can you think about making your value proposition more attractive to potential partners?
 - What can you offer and what do you need to strengthen your organization's sustainability and impact?



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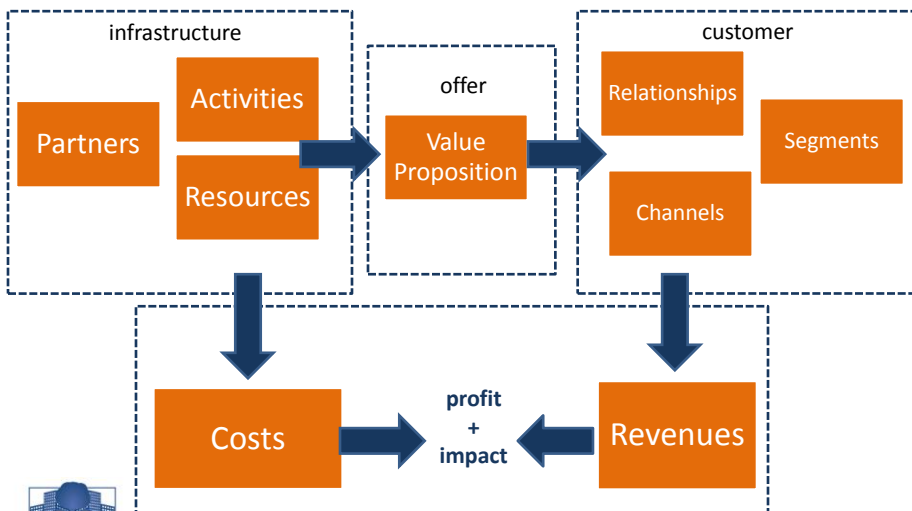
Step Three: Ensure Your Infrastructure Can Deliver on Your Promise

- The value of partnership and collaboration: We can't do everything ourselves. We need and want to strengthen our financial sustainability and deepen our impact in our communities.
 - Working in isolation requires too many resources
 - We're better at some things than others
 - 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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Business Model Canvas



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Step Four: Fine-Tune Your Cost/Revenue/Impact Structure

- Cost Structure
 - What are the most important costs inherent in your business model? Are these changing over time?
 - Efficiency matters. Accurate cost data and careful analysis of operations may open doors for greater efficiencies without compromising mission.
 - What would you need to change to strengthen your sustainability and your ability to grow?



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Step Four: Fine-Tune Your Cost/Revenue/Impact Structure

- Revenue Structure
 - What are your customers really willing to pay for? (How do you know this?)
 - Does this match what you are charging for your products and services?
 - What kind of patchwork of revenue is the most beneficial and sustainable for your organization?



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Step Four: Fine-Tune Your Cost/Revenue/Impact Structure

- Deepening your organization's impact
 - What are your organization's most important outputs?
 - Finance more units of affordable housing?
 - Increase the aggregate loan portfolio?
 - Serve more clients with financial education?



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Step Four: Fine-Tune Your Cost/Revenue/Impact Structure

- Deepening your organization's impact
 - What are your organization's most important outcomes?
 - Strengthen the ability of low-income/low-wealth customers to live in safe, affordable housing
 - Improve health outcomes of your customers through improved access to healthy food and health-related information



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Applying the Business Model Canvas: Four Case Studies of Innovation



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Self-Help Federal Credit Union

- Part of a national nonprofit with multiple affiliated institutions
 - Two credit unions (national and state)
 - A higher-risk loan fund for small business and affordable housing
 - Nonprofit focused on research and advocacy
 - Nonprofit dedicated to fund development



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Self-Help Federal Credit Union

- Self-Help Federal Credit Union – Community Trust Division
 - Developed in response to foreclosure crisis in CA
 - Established mechanism to facilitate multiple mergers with seven struggling community development credit unions
 - Consolidated core operating system technologies, developed a unified staffing structure for the branches, and designed a Community Trust brand
 - Now manages 21 branches with more than \$400 million in assets serving approximately 50,000 families



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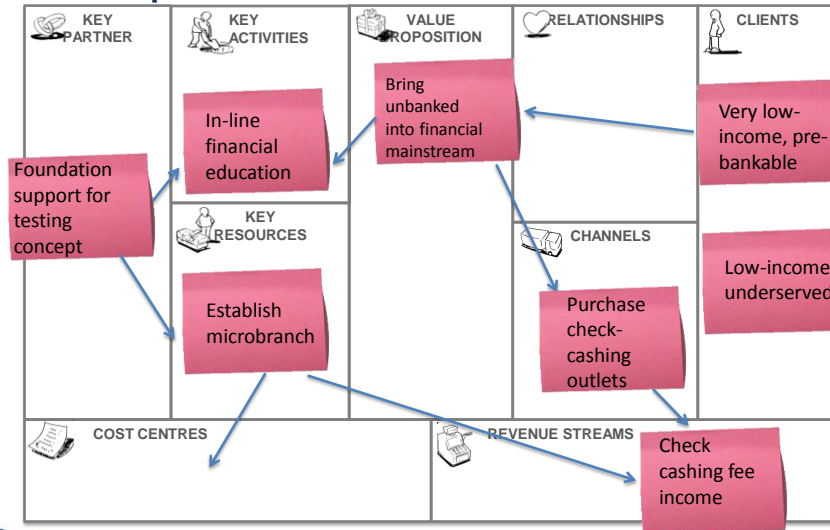
Self-Help Federal Credit Union

- Self-Help Federal Credit Union - Community Trust Prospera
 - Tested and expanded microbranch model. Total number of members and clients grew from zero to 1,628 in first 21 months of pilot micro branch operation
 - Subsequent expansion through purchase of five check cashing stores in Los Angeles with a client base of 15,000 customers



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Self-Help Federal Credit Union Business Model



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Progreso Financiero

- For-profit CDFI launched in 2005
- Providing consumer and business microfinance for a largely immigrant, Latino market in CA and TX
 - Disbursing small dollar loans on prepaid cards and helping clients build credit by reporting borrower performance to credit bureaus
 - Through retail sales points in Latino supermarkets and other outlets
 - Average loan size of \$1,000 for new borrowers for ten month loan, and loan limit of \$2,500
- Emphasizing speed, efficiency, scale, and return



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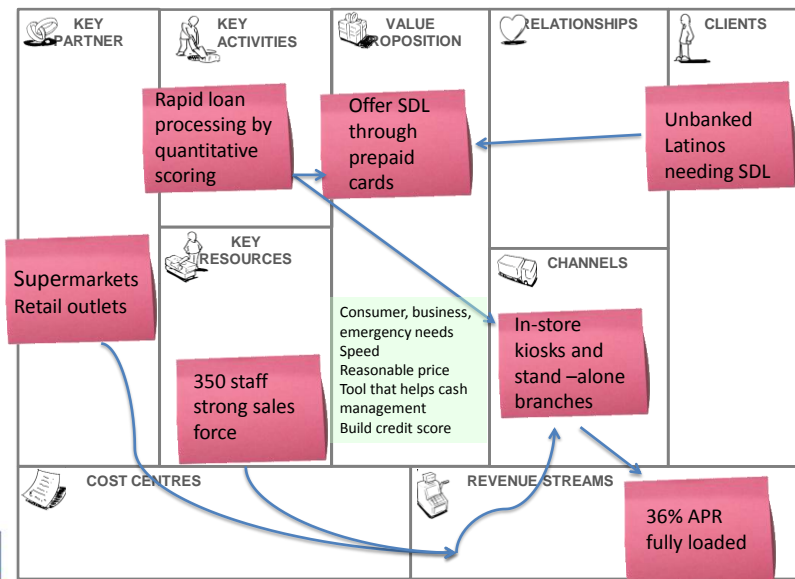
Progreso Financiero

- By year end 2012, almost \$400 million disbursed in nearly 400,000 loans
- Outstanding loan portfolio of ~ \$160 million
- Processing over 15,000 loans monthly
- Over 350 employees
- 75 retail sales points



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Progreso Financiero Business Model



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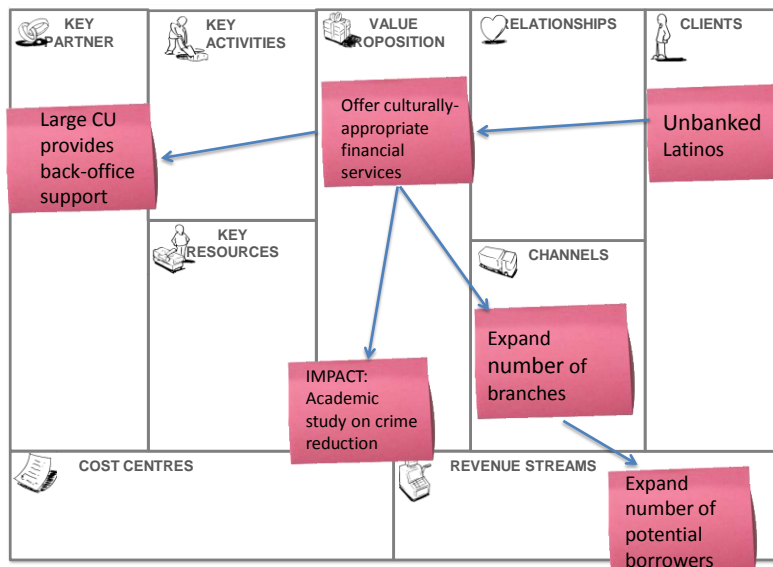
Latino Community Credit Union

- First financial institution in North Carolina aimed at serving the state's growing Latino population
- Founded in 2000 in response to violence against Latino residents
- Formed strong partnership with NCSECU for back-office support
- Used strategy of geographic expansion to grow to 11 branches serving 55,000 members
- Darden School of Business 2011 study documented a 4.2% decrease in crime and a 3.8% increase in property values following opening of a new branch office



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Latino Community Credit Union Business Model



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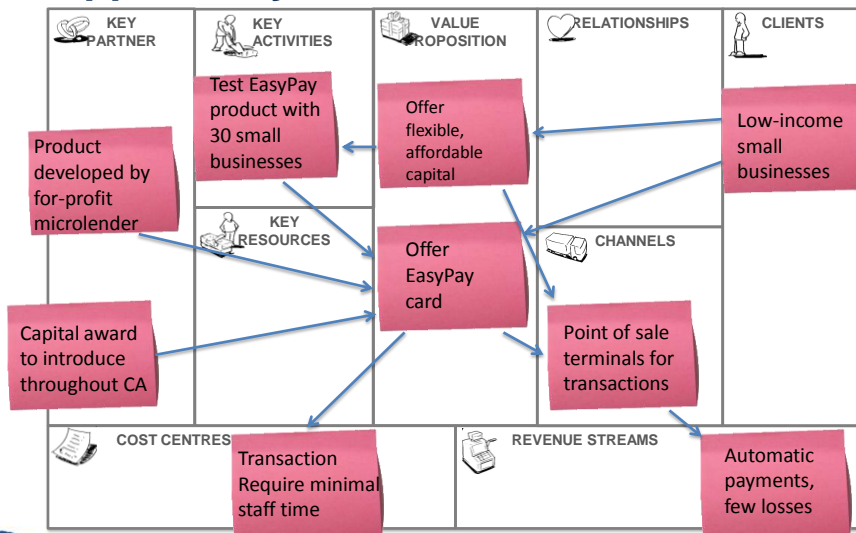
Opportunity Fund

- Nonprofit social enterprise helping CA families build financial stability
- Originally an affordable housing lender, organization changed focus to microenterprise lending and savings
- Pursued a strategy of growth through new product development – EasyPay loan repayment automatically made at time of debit and credit sales
- Product is affordable and directly linked to cash flow for borrower
- Product is efficient for lender – few delinquencies, potential for scale



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Opportunity Fund Business Model



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Review: Your Business Model

- Five integrated business model components
 - Your customers
 - Your value proposition
 - Your infrastructure
 - Your cost/revenue structure
 - Your impact objectives
- Every organization's business model is a unique blend of the components



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Review: Your Business Model

- Every organization has a business model, either implicitly or explicitly
- We believe that an explicit, coherent business model is **critical** to an organization's sustainability and impact in the community
- A good time to get started: **now**



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QUESTIONS?



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Strengthening Small and Emerging CDFIs Winter Webinar Series

- **Innovative Business Models to Strengthen Sustainability and Impact**
– *Ginger McNally, Opportunity Finance Network*
- **Models for Growth – the CDFI of the 21st Century**
– *Michael Swack, The Carsey Institute*
- **The Four Stages of CDFI Growth**
– *Adina Abramowitz, Consulting for Change*
- **Capitalization: Raising Debt and Equity for CDFIs**
– *Michael Swack, The Carsey Institute*
- **Leading Organizational Change**
– *Pam Porter, Opportunity Finance Network*

Dec
5

Dec
16

Jan
8

Jan
21

Feb
5



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CDFI Fund's Virtual Resource Bank

www.cdfifund.gov/what_we_do/Strengthening_Small_and_Emerging_CDFIs_Resource_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Strengthening Small and Emerging CDFIs Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Training Curriculum:

- Models for Growth – What Works
- The Logic Model as an Outcome-Based Project Management Framework
- The Four Stages of Organizational Growth
- Business Model: External Environment
- Managing and Negotiating Change
- CDFI Action Plan
- Leading Organizational Change

II. Training Webinars:

- Coming Soon

III. Additional Resources:

- Analysis of the CDFI Industry Landscape
- CDFI Operations
- Tools for Greater Community Development Impact



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