

Scaling Up Microfinance



Business Model Innovation: Scaling Up Microfinance

Elaine L. Edgcomb, FIELD at the Aspen Institute
Ginger McNally, National Federation of Community Development Credit Unions

April 9, 2013



Go-To-Webinar

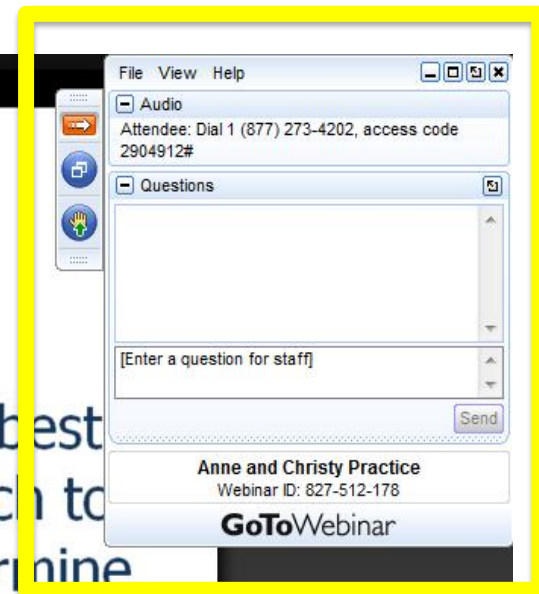
Scaling Up Microfinance

GOAL

To enhance Microfinance CDFIs' exposure to best practices in the field as well as tools with which to analyze their own business practices and determine appropriate strategies to scale.

SUCCESS

Each microfinance organization will identify, and begin to implement, at least one new initiative to facilitate scaling operations.



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.



Scaling Up Microfinance Task Order

Expand the capacity of CDFIs that specialize in microfinance through a program focused on decreasing costs, exploring new products, building human capital, and improving business models in order to attract investments.

- 3 Trainings
 - Technical Assistance
 - Virtual Resource Bank



Elaine Edgcomb



Strategic Advisor

The Aspen Institute

elaine.edgcomb@aspenninst.org



Ginger McNally



National Federation of Community
Development Credit Unions
ginger@missionplusmoney.com



Scaling Up Microfinance



Business Model Innovation: Scaling Up Microfinance

Elaine L. Edgcomb, FIELD at the Aspen Institute
Ginger McNally, National Federation of Community Development Credit Unions

April 9, 2013



Today's Goal and Objectives

Goal:

Identify opportunities to improve microfinance business models to achieve greater effectiveness, efficiency and scale.

Objectives:

- Introduce framework for designing and revising business models
- Explore business models designed to scale microfinance services
- Review approaches that support business model innovation



Agenda

- How can a business model support scaling up microfinance?
 - What is a business model?
 - What is scale?
 - What is microfinance?
- Creative destruction and continual innovation
- Business model canvas
 - Using the business model canvas tool in your organization
- Nurturing innovation in your organization
- Opportunities for collaboration and strategic partnership

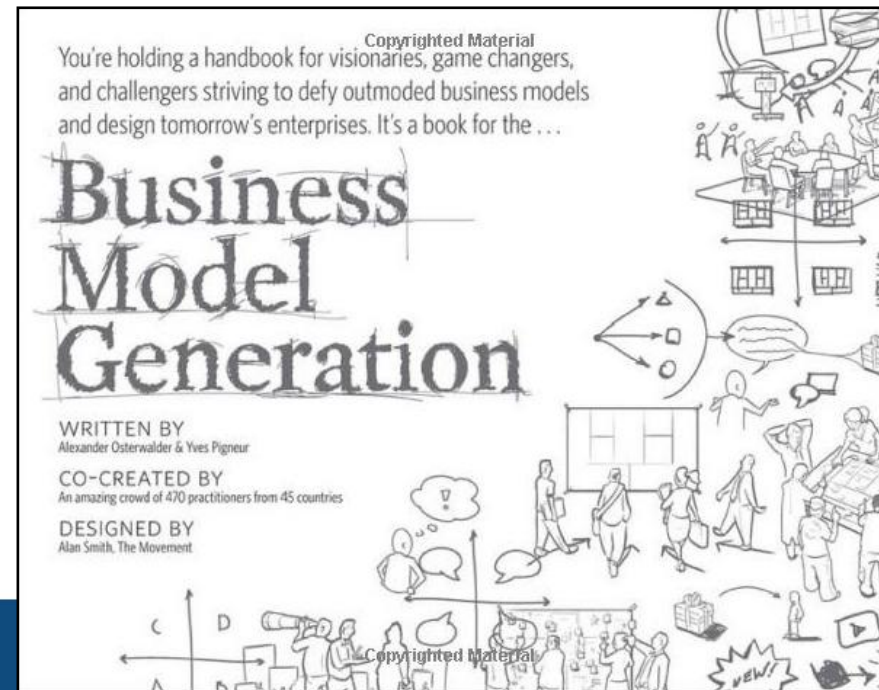


Shared Definitions: Business Model

How can a **business model** support scaling up microfinance?

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

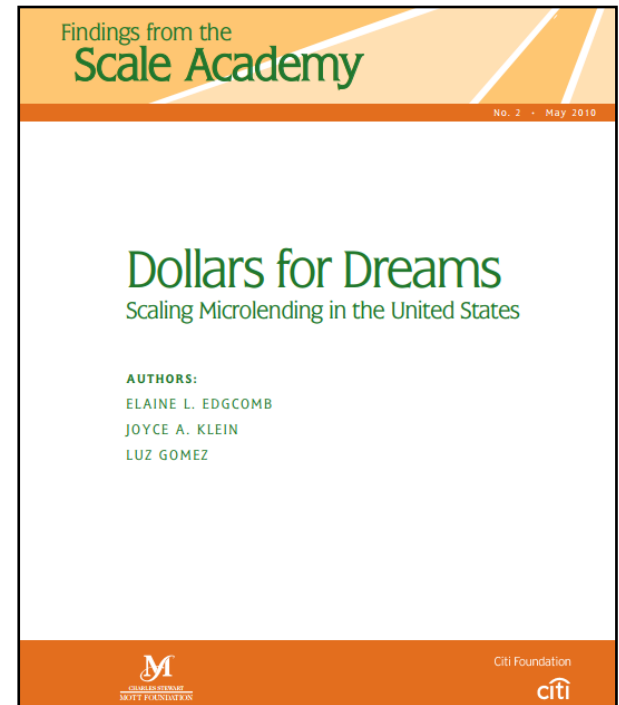
From *Business Model Generation*
by Alexander Osterwalder & Yves Pigneur
(2010)



Shared Definitions: Scale

How can a business model
support **scaling up**
microfinance?

*The goal of scale is reaching
large numbers of
people...Scale is a
significant leap forward, a
transformative change.*

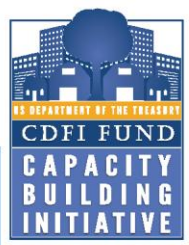


From: Dollars for Dreams: Scaling Microlending in the United States
FIELD at the Aspen Institute (Edgcomb, Klein, Gomez) (2010)

Shared Definitions: Microfinance

How can a business model support scaling up
microfinance?

- *Financial products for low-income/low-wealth clients:*
 - Small loans – business, consumer, credit building
 - Small savings products
 - Affordable transactional products
- *Often combined with:*
 - Financial education, IDAs, and other income generation and asset development programs



Business Models and Scaling Up Microfinance

- Every business – small or large – has an implicit or explicit business model
 - Customers, value proposition, infrastructure, costs/revenues
- Every CDFI has a business model, too, in the way it:
 - Creates value for its clients
 - Creates a sustainable revenue and cost structure for the organization



Business Models and Scaling Up Microfinance (continued)

- In order for a CDFI to scale up its microfinance activities, the components of its business model need to be consistent in focus:
 - Customers
 - Value proposition
 - Infrastructure
 - Cost/revenue structure
- Every organization's business model is different
 - No "one size fits all" or cookie cutter approach





Thriving depends on continual
business model innovation

A Practical Tool to Support Innovation: The Business Model Canvas



How to Use the Business Model Canvas

① PLOT THE
CANVAS
ON A
POSTER

② PUT THE
POSTER ON
THE WALL

③ SKETCH OUT
YOUR BUSINESS
MODEL

The Business Model Canvas

Designed for:

Designed by:

On:

Iteration:

Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

EXAMPLES
Distribution channels
Co-branding
Acquisition of other companies
Referrals
Joint ventures
Acquisition of other companies and activities

Key Activities



What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

EXAMPLES
Manufacturing
Procurement
Software development
Platform network

Value Propositions



What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

EXAMPLES
Convenience
Performance
Customization
"Getting the job done"
Design
Brand status
Price
Ease of use
Risk reduction
Accessibility
Environmental friendliness

Customer Relationships



What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES
Personal assistance
Self-Service
Automated services
Communities
Co-creation

Customer Segments



For whom are we creating value?
Who are our most important customers?

EXAMPLES
Mass Market
Niche Market
Segmented
Individual
Non-profit

Key Resources



What Key Resources do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue Streams?

EXAMPLES
Physical
Intellectual
Human
Financial
Social

Channels



Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

EXAMPLES
1. Direct sales
2. Indirect sales
3. Partners
4. Retailers
5. Other sales
6. Other sales

Cost Structure



What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

EXAMPLES
Cost of Sales
Cost of Distribution
Cost of Customer Support
Cost of Marketing
Cost of Research and Development
Cost of Administration
Cost of Compliance
Cost of Capital

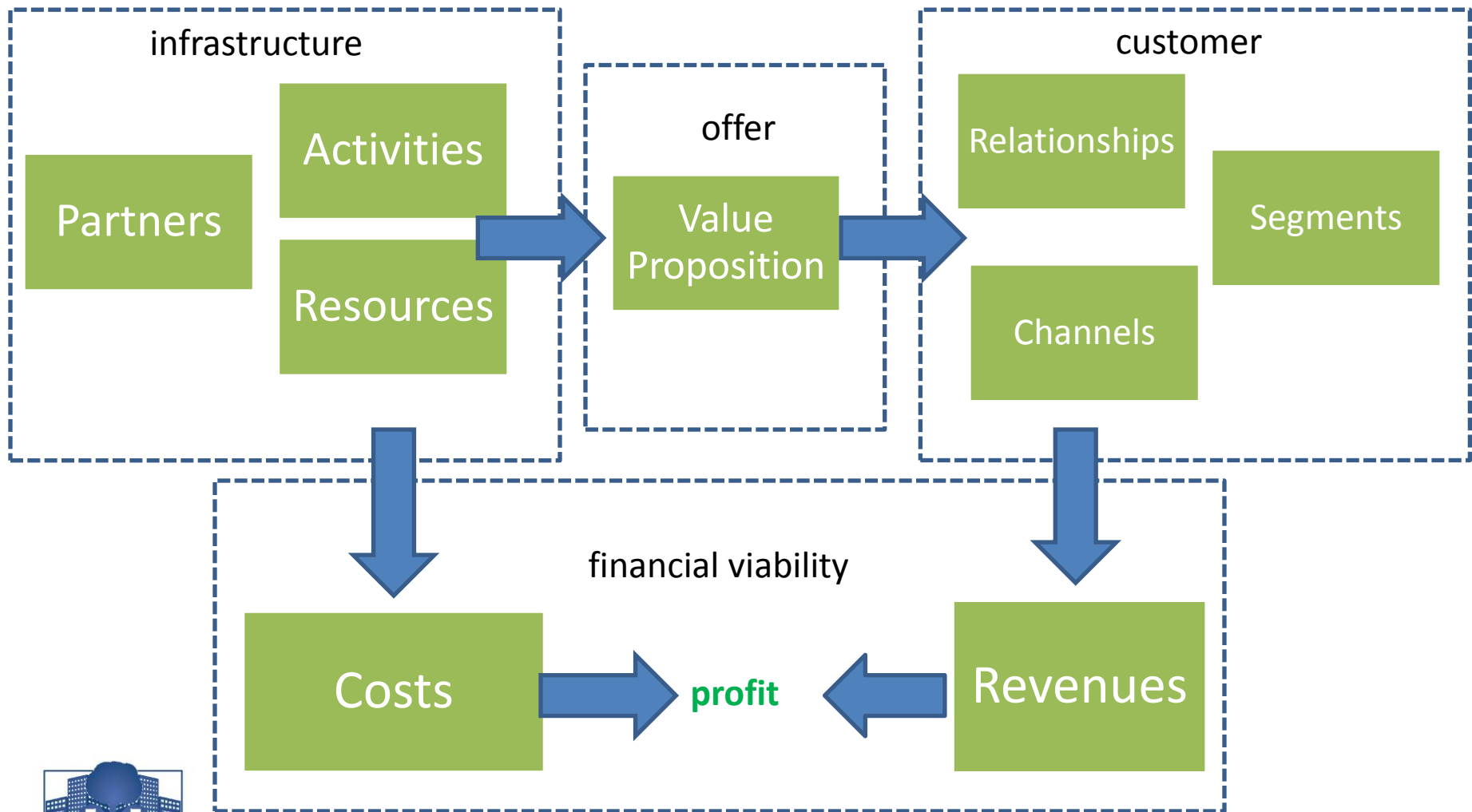
Revenue Streams



For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

EXAMPLES
Asset sale
Usage fee
Subscription
Licensing
Advertising
Commission
Rental
Leasing
Royalty
License
Franchise
Investment
Debt
Equity
Other

Business Model Canvas



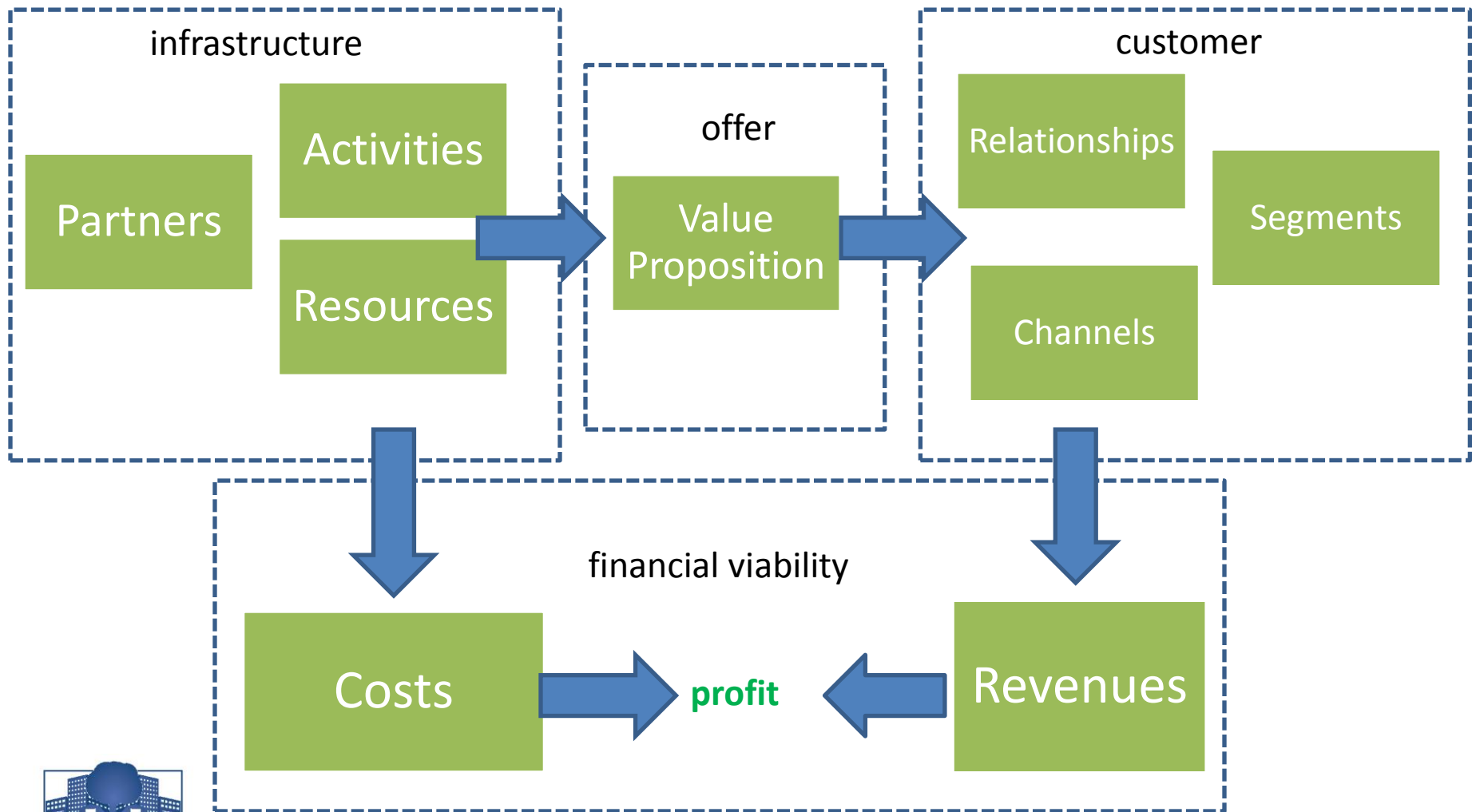
Business Model Canvas:

Box 1: The Customer

- Segments
 - Who are we creating value for?
 - Who are our most important customers?
- Customer Relationships
 - What kind of relationship is most important to our customers and how do we develop that?
- Channels
 - How do our customers want to use our services?
 - How do our customer want us to reach them?



Business Model Canvas



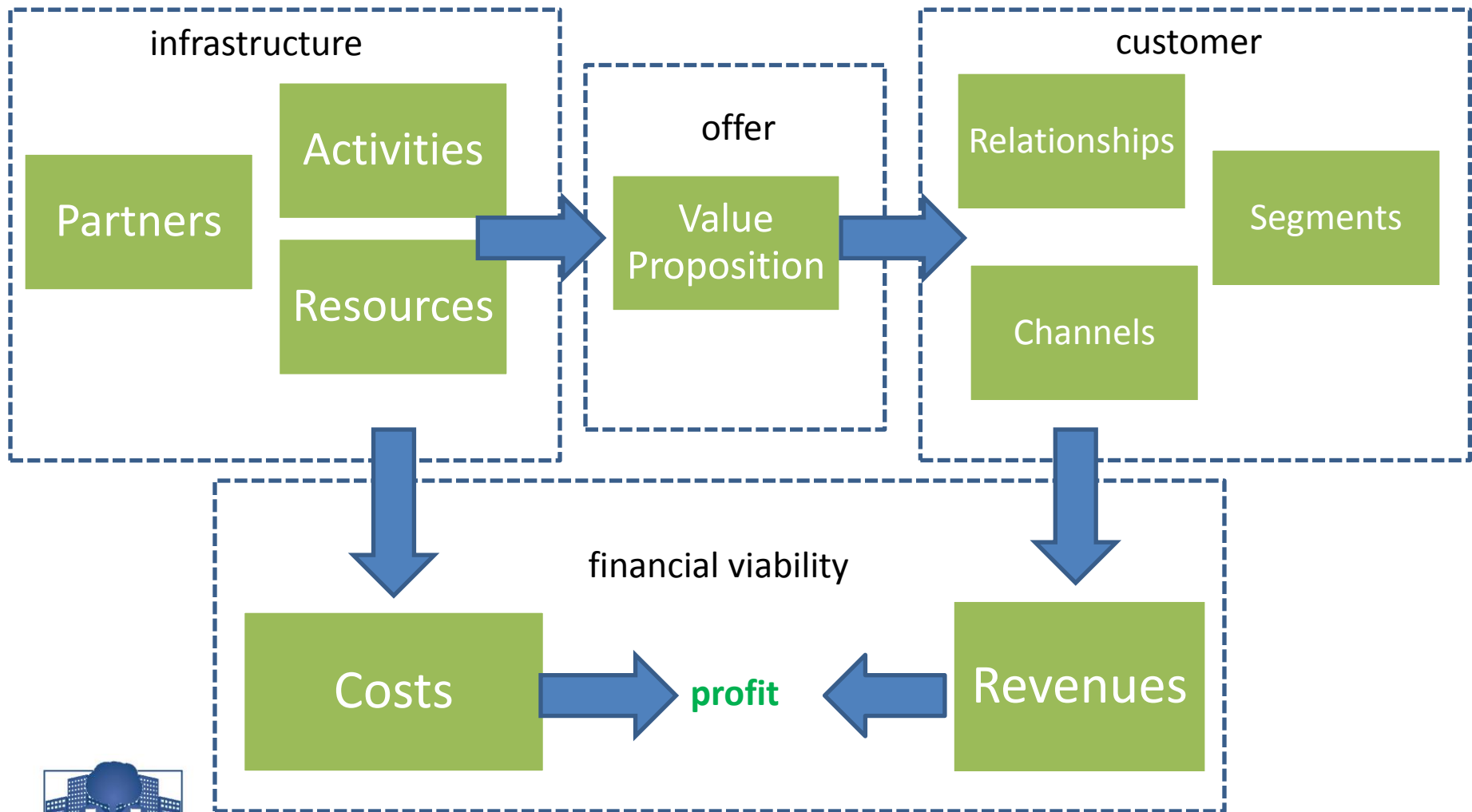
Business Model Canvas:

Box 2: The Offer

- Value Proposition
 - What distinguishes us in the marketplace?
 - What value do we deliver to the customer?
 - What one of our customer's problems are we helping to solve? what needs are we satisfying?
 - What distinguishes us in the marketplace?
 - What are we doing now that is not consistent with our core value proposition?



Business Model Canvas



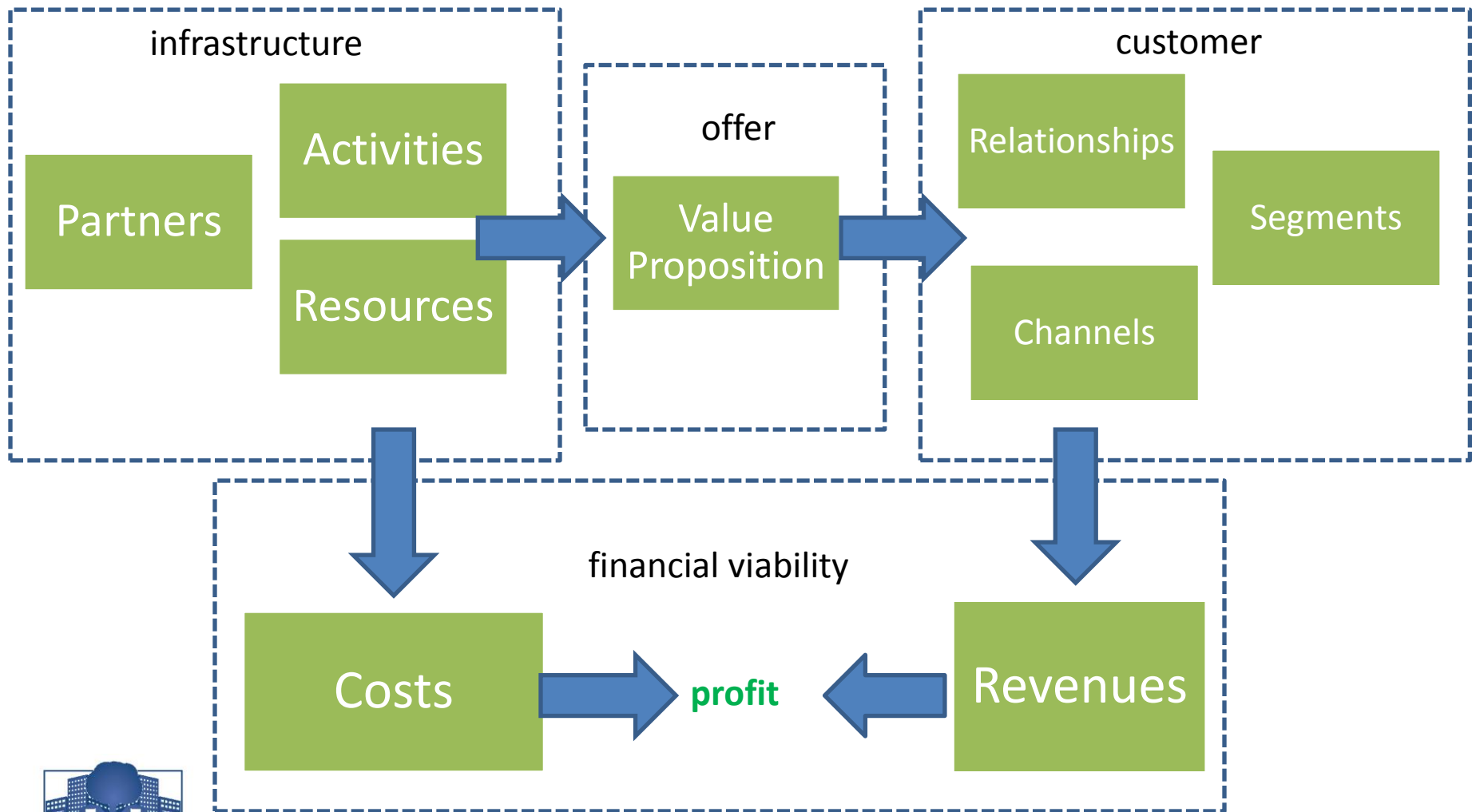
Business Model Canvas:

Box 3: The Infrastructure

- Key Activities
 - What are our key lending activities?
 - Our key savings, financial services, or programmatic activities?
- Key Resources
 - What kind of financial and nonfinancial resources are required to make our key activities successful?
- Key Partners
 - Who are we working with or might we work with to strengthen our scope, sustainability, and impact?



Business Model Canvas



Business Model Canvas: Financial Viability

Box 4: The Cost/Revenue Structure

- Cost Structure
 - What are the most important costs inherent in our business model? (Key Resources? Key Activities?)
 - What would need to change to scale up our microfinance focus?
- 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?



Scaling Up Microfinance



Questions?



Applying the Concepts: Two Case Studies

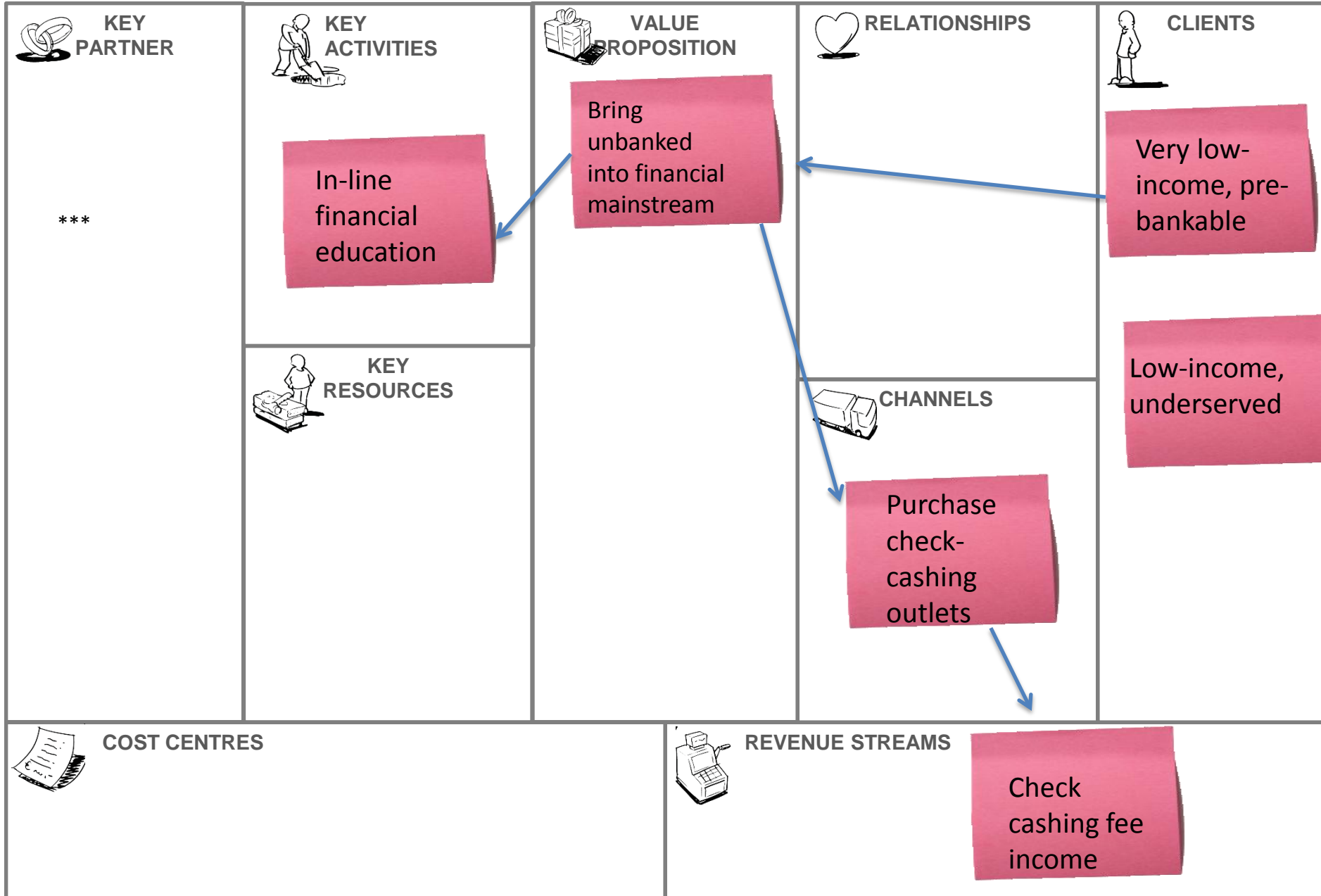


Self-Help Federal Credit Union: Overview

- 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
- Formed Self-Help Federal Credit Union in response to foreclosure crisis in California
 - Completed multiple mergers with CDCUs in California
 - Tested and expanded Micro Branch model



Self-Help Federal Credit Union Business Model



Self-Help Federal Credit Union: Scale

- Self-Help Federal Credit Union – Community Trust Division
 - Developed 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



Self-Help Federal Credit Union: Scale (continued)

- Self-Help Federal Credit Union - Community Trust Prospera
 - 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



Self-Help Federal Credit Union: Scale (continued)

- Self-Help Federal Credit Union - Combined
 - With Community Trust and Prospera, Self-Help Federal Credit Union now manages 21 branches with more than \$400 million in assets serving approximately 50,000 families
 - Contributed to 23% growth in membership to 90,000 members and 50% growth in savings to \$18 million in 2011 for Self-Help credit unions nation-wide



Self-Help Federal Credit Union: Lessons Learned

- Community Trust Division / Community Trust Prospera
 - Early and ongoing market research is critical
 - Products and services should meet the immediate needs of unbanked and underbanked clients
 - Be open to experimentation and a process of adaptation
 - Maintain patient investment toward economic viability



Self-Help Federal Credit Union: Lessons Learned (Continued)

- Change takes time
 - Start with a great idea, continue to test the concept by asking questions, listen carefully, and observe customer behavior, modify the offering as needed
 - Evolution is part of change; new initiatives rarely go as originally anticipated
- Change can be incremental
 - “Start where the customers are” rather than try to change customer behavior from the start
 - Incorporate small steps to support behavior change



Progreso Financiero: Overview

- 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

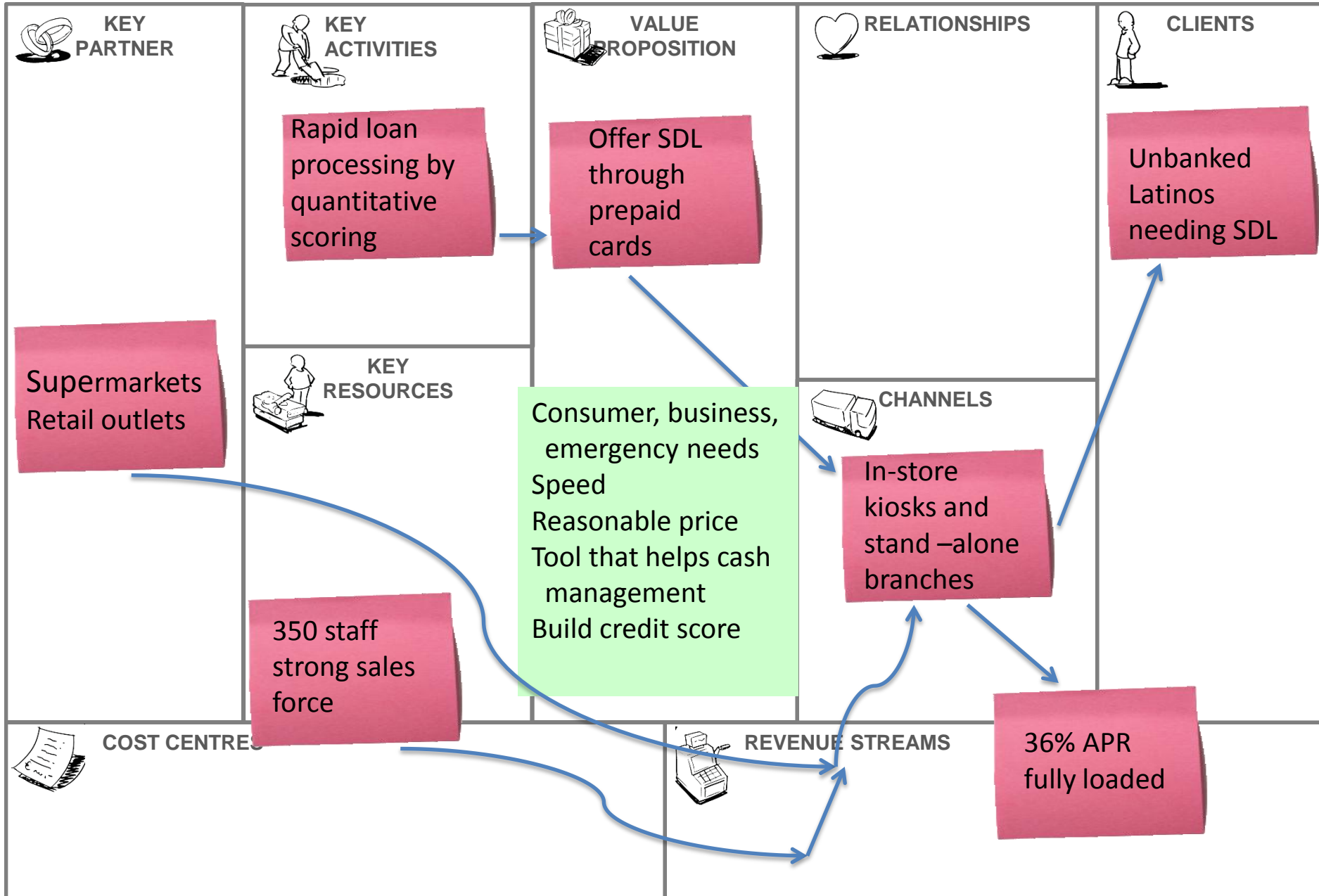


Progreso Financiero: Scale

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



Progreso Financiero Business Model



Possible Lessons from Progreso for Adapting Business Models

- Get as close to customers as possible
- On the spot pre-qualification
- Increasing speed of loan decisioning and delivery
- Increasing quantification and standardization in credit analysis (credit grids, credit scoring)
- Collecting client data for mining and building credit scoring over time
- Sales training and support
- Offering a broader suite of microloans
- Others?



Fostering Business Model Innovation in Your Organization



Increasing Your Organization's Innovation IQ

An organization's capacity for innovation can be increased.

Case examples demonstrate that:

- Innovation is ongoing and iterative
- Organizations go through multiple stages of development
- Focus can be on both big ideas and in-depth process improvements
- External models and internal assessment are sources of inspiration



Increasing an Organization's Capacity for Innovation

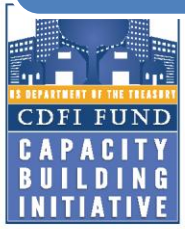
Intentionally support innovation

Seek out multiple perspectives

Explore many ideas

Develop a theory and test it

Tolerate and learn from failures



Innovative Thinking in Action: Market Research

Analyze market channels

- Are there sectors we could be reaching?
- Clusters of potential clients served by distribution points we can tap?

Listening to the market

- What does market research tell us about customer needs, demands, preferences?
- What does informal listening and market scanning tell us?

Innovative Thinking in Action: Mining the Data

- Where do your customers come from?
- How do you hear about them?
- Where do they drop off in your lending or business development services process?
- What do they complain about?
- Where are the “speed bumps” or potential crisis points in your process?
- Who best fits your program services?

Innovative Thinking in Action: Listening to Staff

- What's the biggest avoidable headache our clients endure?
- In what ways is our efficiency bogged down by policies worth examining?
- What's changed in our operating environment since we last redesigned our processes?



Opportunities for Collaboration and Strategic Partnership

- Back office operations and platforms
 - Accion Texas's Microloan Management System
- Product development
 - Opportunity Fund's Easy Pay Loan
- Market segmentation and deal referrals
 - Santa Barbara Bank and Trust's revised loan application and referral process to Cal Coastal
- Areas for future exploration
 - Liquidity management



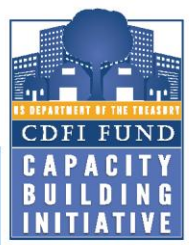
Examples of Collaboration

- Credit Unions and 501(c)3 nonprofits
 - Santa Cruz Community Credit Union and Santa Cruz Community Ventures (Child Care and Individual Development Accounts)
- Loan Funds and Credit Unions
 - The Support Center and Generations Credit Union (Business Loan Underwriting)
- Loan Funds and Loan Funds
 - The Reinvestment Fund and the Low-Income Investment Fund (Child Care and Charter Schools)



Things to Consider for Your CDFI

- What types of partnership or strategic collaboration does your organization participate in?
- Are there collaborations that might help your organization scale its microfinance activities?



Scaling Up Microfinance



Questions?



Scaling Up Microfinance



Additional Resources



Additional Resources

- Business model canvas
 - [Business Model Generation](#) by Osterwalder and Pigneur
- Innovation
 - [Permanent Innovation](#) by Langdon Morris
- Collaborations
 - “Partnerships for Community Impact: Higher Education and CDFIs Working Together” by OFN



CDFI Fund's Virtual Resource Bank

http://www.cdfifund.gov/what_we_do/Scaling_Up_Microfinance_Resource_Bank.asp

CDFI Fund - U.S. Treasury

[←](#) [→](#) [↻](#) [🏠](#) [📄](#) [www.cdfifund.gov/what_we_do/Scaling_Up_Microfinance_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



Scaling Up Microfinance: Resource Bank

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

Innovative Business Models

General Introduction to Module: This training module assists microfinance CDFIs to identify opportunities for improving their business models to achieve greater effectiveness, efficiency, scale, and impact. This module presents case studies of business model innovation among loan fund and credit unions involved in microfinance, explores themes of pricing, structure, and sustainability strategies, and presents a tool – The Business Model Canvas – to assist in conceptualizing your CDFI's business model now and in the future.

Training Presentation:

- Authors: Elaine Edgcomb, FIELD at The Aspen Institute, and Ginger McNally, National Federation of Community Development Credit Unions
- Summary: This presentation explores how business model innovation is critical for the survival and scaling of microfinance in the United States. It also introduces the Business Model Canvas, a tool for understanding how the various components of your CDFI's business models can work together to support scale. Additionally, this presentation outlines how organizations can foster a culture of innovation through a variety of simple practices





Upcoming TA Webinars

- Encouraging Innovation & Developing Talent
 - Dr. Monica McGrath, Resources for Leadership
 - Tuesday, April 30th @ 2pm EDT
- Adding New Microfinance Products to Scale & Increase Impact
 - Center for Financial Services Innovation
 - Tuesday, May 14th @ 2pm EDT
- Technology to Improve Performance & Efficiency
 - Joyce Klein, FIELD at The Aspen Institute
 - Tuesday, May 21st @ 2pm EDT

To register, visit the CDFI Fund's Web site or click [here](#).



Strengthening Small & Emerging CDFIs

A CDFI Fund Capacity Building Initiative

- This training and technical assistance program will benefit CDFI loan funds, credit unions, and venture capital funds with assets less than \$25 million that have a strong ambition to serve their target market with greater impact
- CDFIs serving specific regions of persistent poverty that are traditionally underserved by financial institutions, such as Appalachia, the Colonias along the U.S.-Mexico border, and the Mississippi Delta, are especially encouraged to participate



Strengthening Small & Emerging CDFIs

A CDFI Fund Capacity Building Initiative

Five Workshops

- Federal Reserve Bank of Houston | June 19 - 21
- Federal Reserve Bank of Nashville | July 31 - August 2
- Compuware Headquarters in Detroit | August 14 - 16
- Federal Reserve Bank of New Orleans | October 2 - 4
- Dates for the training workshop in Los Angeles will be announced soon

All workshops provide the same content.



Strengthening Small & Emerging CDFIs

A CDFI Fund Capacity Building Initiative

To Learn More:

- Attend a webinar on April 24th @ 2:00pm EDT
- Register at [OFN's Web site](#) or by clicking [here](#).
- Contact Tabitha Atkins at tatkins@opportunityfinance.net

To Register for the Small & Emerging CDFI Trainings:

www.opportunityfinance.net/smallandemerging



Contact Information

Pam Porter

Executive Vice President

Strategic Consulting

Opportunity Finance Network

pporter@opportunityfinance.net

215-320-4303

Christy Bare

Senior Associate

Strategic Consulting

Opportunity Finance Network

cbare@opportunityfinance.net

215-320-4320



Scaling Up Microfinance



Business Model Innovation: Scaling Up Microfinance

Elaine L. Edgcomb, FIELD at the Aspen Institute
Ginger McNally, National Federation of Community Development Credit Unions

April 9, 2013

