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
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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
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
Business Model Canvas

- **Partners**
- **Activities**
- **Resources**
- **Channels**
- **Relationships**
- **Segments**

**Value Proposition**

**infrastructure**

**customer**

**profit**

**financial viability**

**Costs**

**Revenues**
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: 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

- Partners
- Activities
- Resources
- Value Proposition
- Offer
- Relationships
- Segments
- Channels
- Costs
- Revenues
- Profit
- Financial viability

infrastructure
customer
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?
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

**Value Proposition**
Bring unbanked into financial mainstream

**Channels**
Purchase check-cashing outlets

**Clients**
- Very low-income, pre-bankable
- Low-income, underserved

**Key Activities**
- In-line financial education

**Key Resources**

**Revenue Streams**
Check cashing fee income

**Key Partners**

**Cost Centers**

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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

**KEY PARTNER**

Supermarkets
Retail outlets

**KEY ACTIVITIES**

Rapid loan processing by quantitative scoring

**VALUE PROPOSITION**

Offer SDL through prepaid cards

**RELATIONSHIPS**

Consumer, business, emergency needs
Speed
Reasonable price
Tool that helps cash management
Build credit score

**CHANNELS**

In-store kiosks and stand-alone branches

**CLIENTS**

Unbanked Latinos needing SDL

**KEY RESOURCES**

350 staff strong sales force

**COST CENTRES**

36% APR fully loaded

**REVENUE STREAMS**
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?
Questions?
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


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
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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](http://www.opportunityfinance.net) or by clicking [here](http://www.opportunityfinance.net).
• Contact Tabitha Atkins at [tatkins@opportunityfinance.net](mailto:tatkins@opportunityfinance.net)

To Register for the Small & Emerging CDFI Trainings:  
[www.opportunityfinance.net/smallandemerging](http://www.opportunityfinance.net/smallandemerging)
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