



Business Model Innovation: Supporting Scaling Up Microfinance

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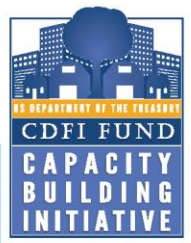
Session Goal and Objectives

Goal:

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

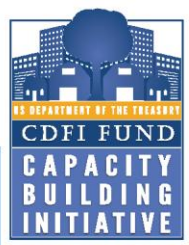
Objectives:

- Examine the role of business model innovation in microfinance survival and growth
- Explore issues of pricing, structure and sustainability
- Consider ways to increase an organization's "innovation IQ"
- Identify opportunities for continued technical assistance



Getting Started

- Your organization
 - CDFI type: loan fund, credit union, bank, hybrid structure
 - Loan portfolio: Under \$5MM, between \$5MM-\$25MM, over \$25MM
- Your role in your organization
 - Senior management (CEO, COO, CFO, Director of Lending, Director of Programs)
 - Mid management (administration, finance, lending, programs)
 - Volunteer (Board member, Committee member, other)



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
- Case studies & discussion
- 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.

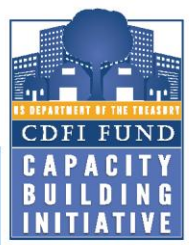
From *Dollars for Dreams: Scaling Microlending in the United States*
FIELD at the Aspen Institute (Edgcomb, Klein, Gomez) (2010)



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



Developing business model innovation is a process

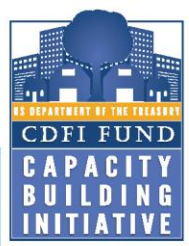
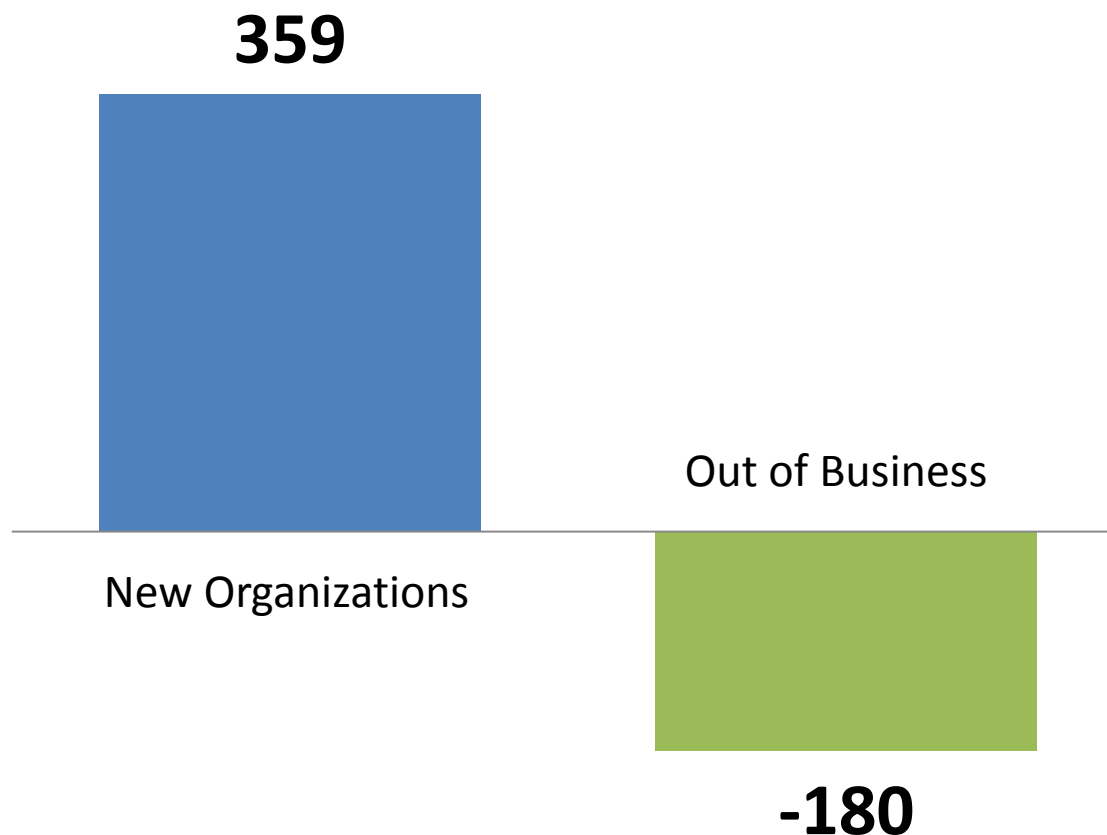
CREATING
DESTRUCTING

A fact in the corporate world. A fact in the microfinance world

Consider...

Change in Microenterprise Development Organizations 2002-2008

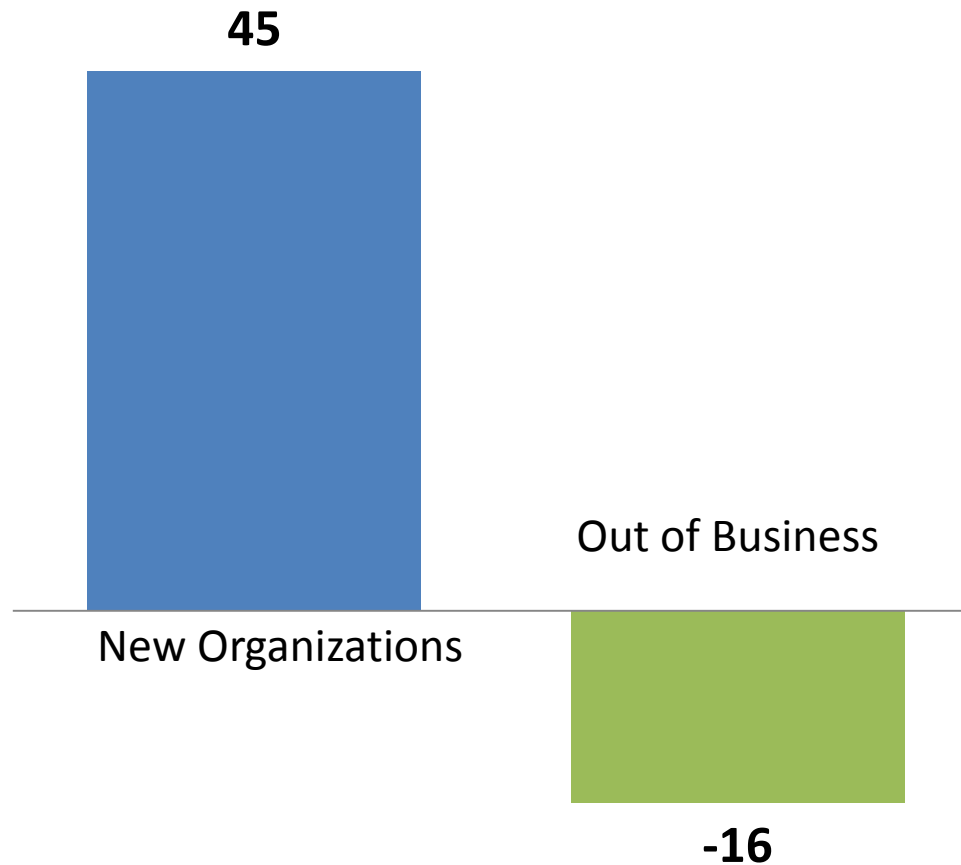
U.S. Microenterprise Census



The Trend Continues...

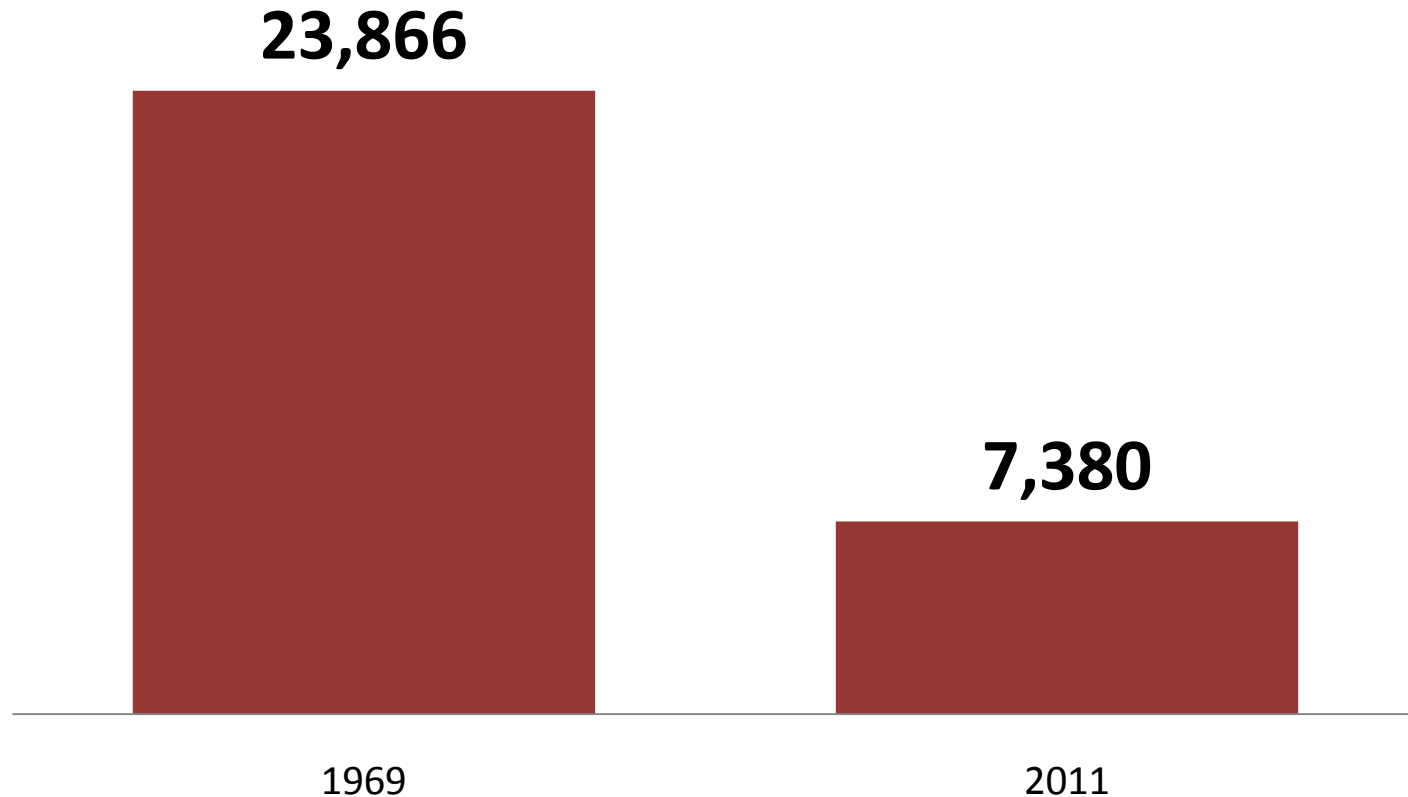
Change in Microenterprise Development Organizations 2008-2010

U.S. Microenterprise Census



In Credit Unions too...

Change in number of Credit Unions from 1969 to June 2011



Lieberman, I., Mudd, J., and P. Goodeve. (2012). U.S. Microfinance at the Crossroads – Scale and Sustainability: Can Lessons from International Experience Help Guide the U.S. Sector?



Thriving depends on continual
business model innovation

A Practical Tool to Support Innovation: The Business Model Canvas



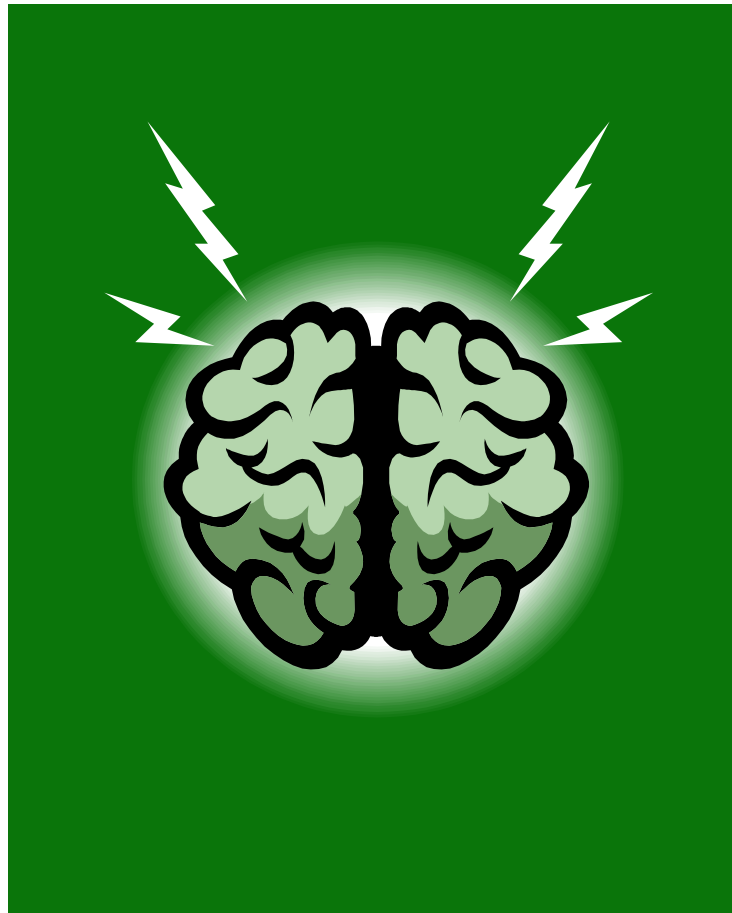
How to Use the Business Model Canvas

① PLOT THE
CANVAS
ON A
POSTER

② PUT THE
POSTER ON
THE WALL

③ SKETCH OUT
YOUR BUSINESS
MODEL

Left Brain

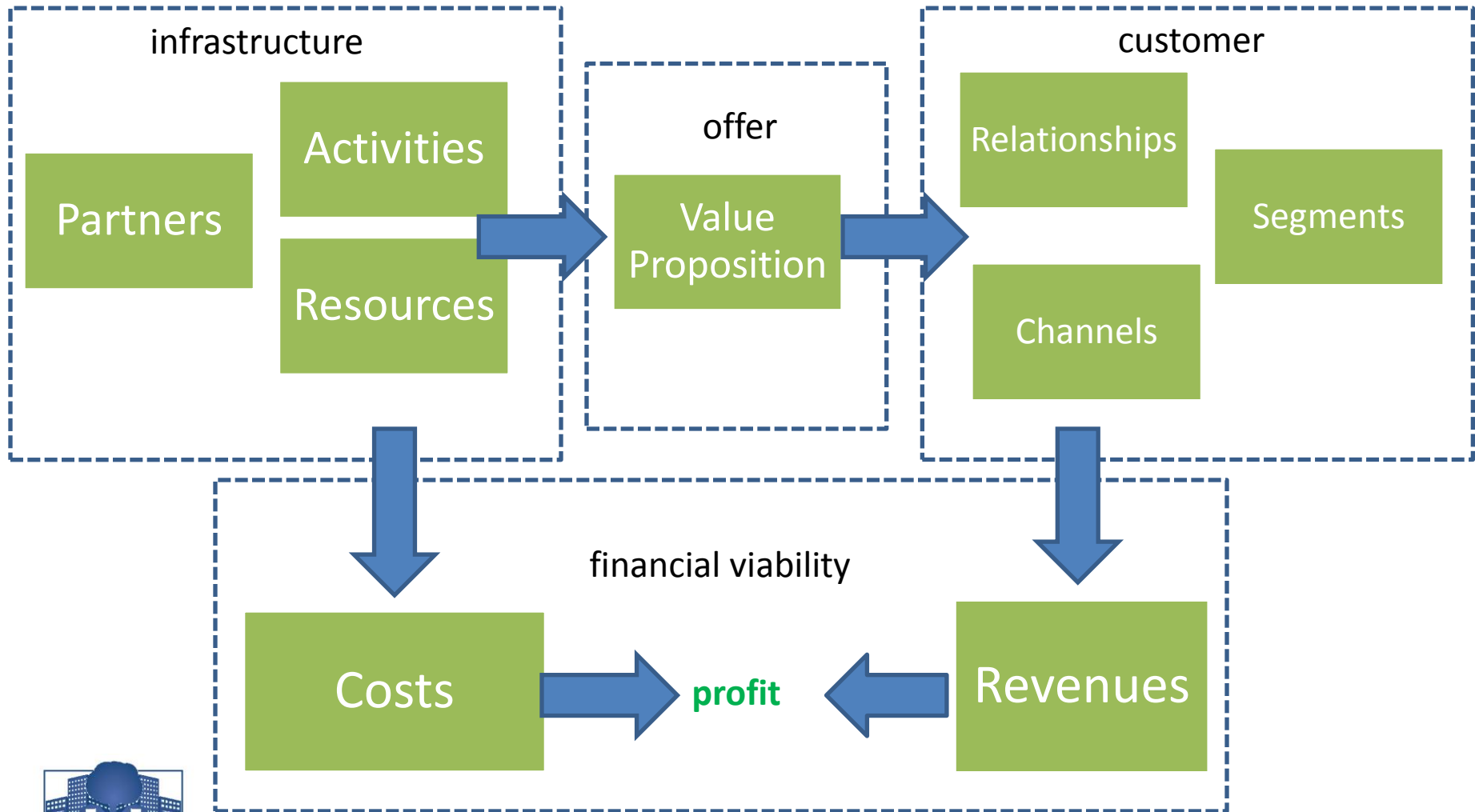


Right Brain

Iteration:



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:

Box 2: The Offer

- Value Proposition
 - What distinguishes us in the marketplace?
 - What key resources do we require to maximize our competitive advantage?
 - What are we doing now that is not consistent with our core value proposition?



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: 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?



Small Table Discussion

- Describe your organization's business model
- Pick one of the key components of your organization's business model and describe how it helps or hinders scaling microfinance
 - Your customer
 - Your offer/value proposition
 - Your infrastructure
 - Your cost and revenue structure/financial viability



Applying the Concepts: Two Case Studies

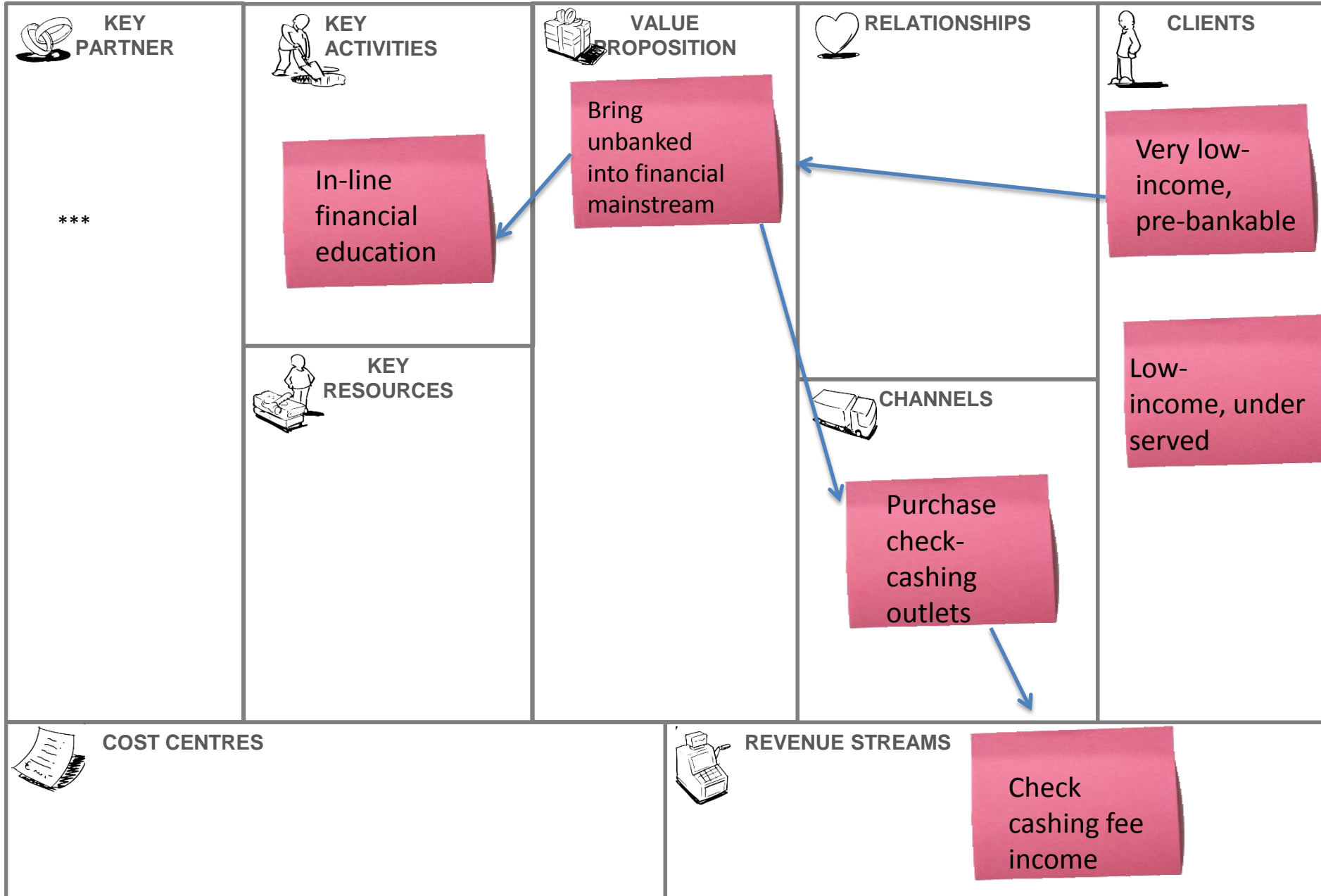


Self-Help Federal Credit Union: Overview

- 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

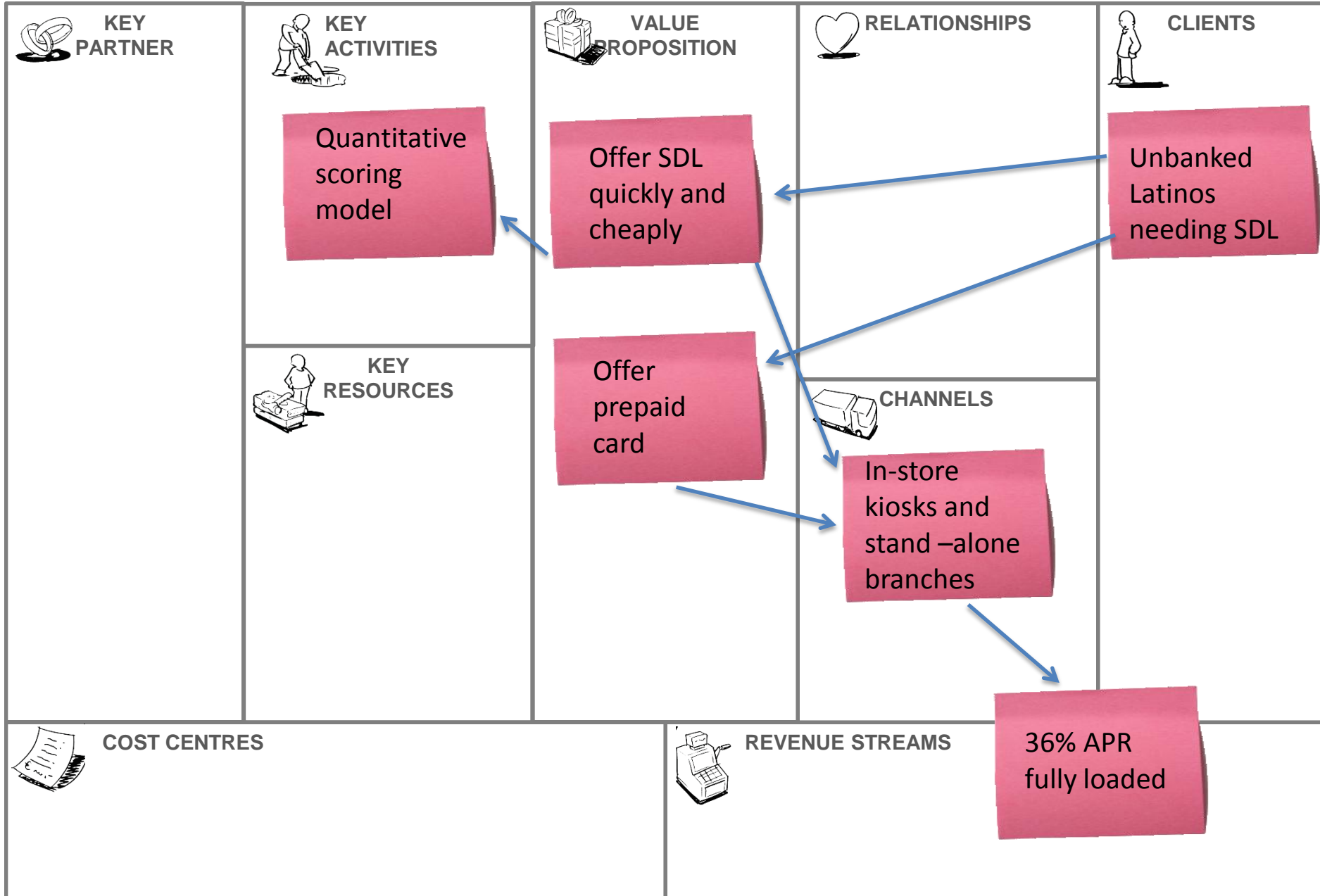


Progreso Financiero: Overview

- For-profit CDFI launched in 2005
- Providing consumer and business microfinance for a largely immigrant, Latino market
 - Through retail sales points in Latino supermarkets and other outlets
 - Disbursing small dollar loans on prepaid cards and helping clients build credit by reporting borrower performance to credit bureaus
- Emphasizing speed, efficiency, scale, and return



Progreso Financiero Business Model



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

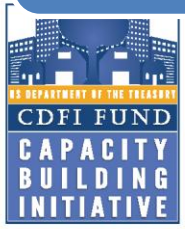
Intentionally support innovation

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?



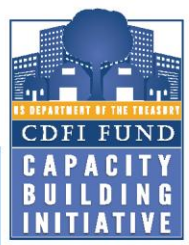
Opportunities for Collaboration and Strategic Partnership

- 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)



More Examples of Collaboration

- Mainstream Credit Unions and CDCUs
 - The Bridge Project (Formal and Informal Financial Education)
- CDFIs and Educational Institutions
 - The Reinvestment Fund and La Salle University (Improving Access to Healthy Food)
 - IFF and University of Chicago (Increasing Child Care and Education Options)



Small Table Discussion

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



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



Additional Resources (continued)

- Comparison of international and U.S. microfinance activities
 - For-profit and nonprofit structures
 - Mobile/remote solutions
 - Niche financing
 - Leveraging intellectual capital

