

Creative Business Models That Expand Reach, Production and Sustainability

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Kirsten S. Moy
Economic Opportunities Program



What is Scale?

- More capital
- More customers
- More effectiveness

“Economies of scale” usually refers to the development of mass markets and progressive cost reduction through increased business volume.

Can the industry groups assembled achieve this kind of scale?

Why Pursue Scale?

- To reach more people
- To provide access to services to as many low income people and communities as possible on a permanent and sustainable basis
- To tap into economies of scale
- To become more sustainable
- To have greater impact in low income communities

Case Comparisons Undertaken

- Banknorth Group
- 7-11 (Vcom Expansion)
- ACE Cash Express
- Allied Capital and BLX
- VISA Credit Card
- Self-Help (Fannie Mae SF Mortgage Program)
- ACCION
- The Reinvestment Fund
- Dell Computers
- Unified Western Grocers



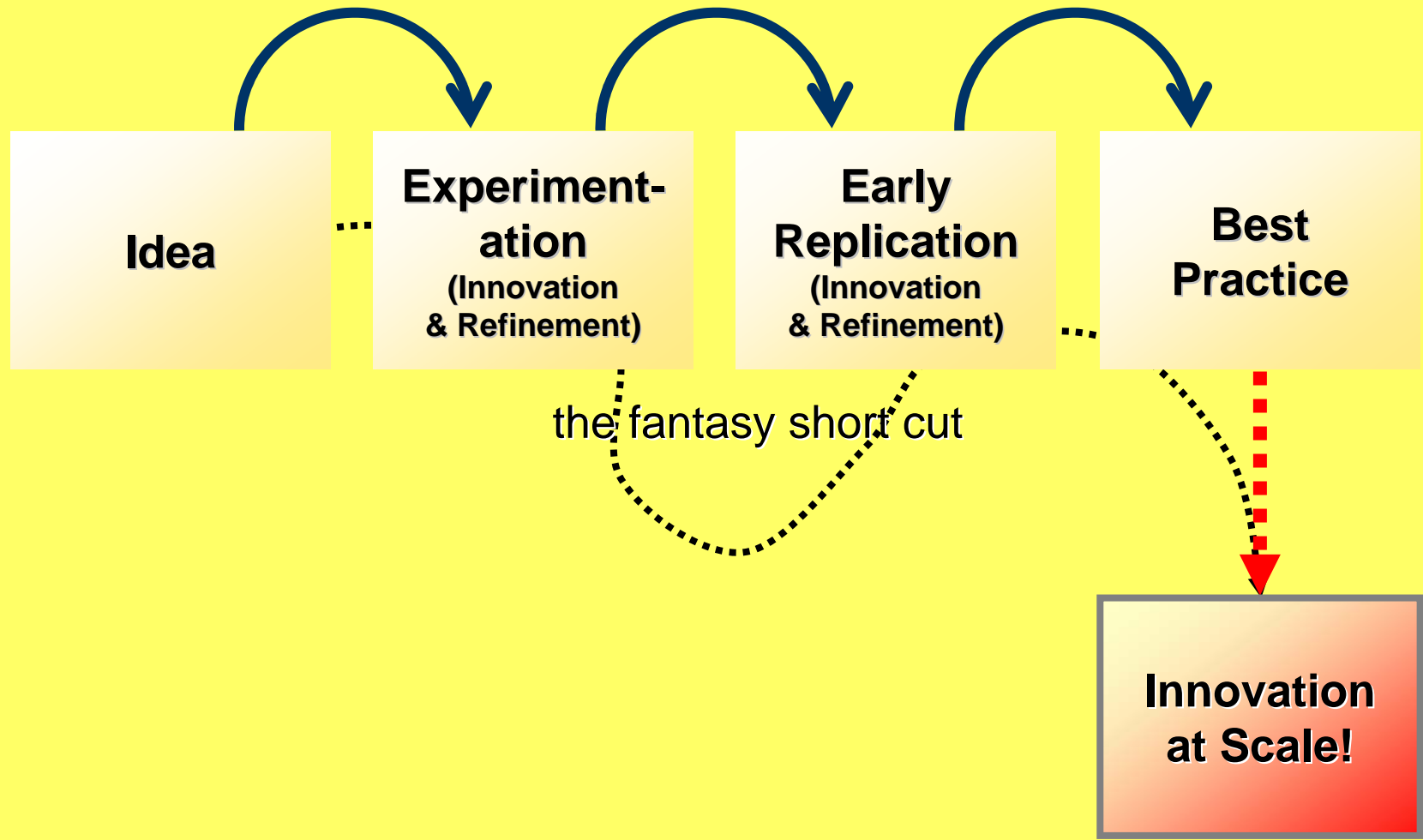
Lessons

1. Profitability was the primary driver of product development. The ability to produce a diversified yet complementary set of products was critical to achieving scale.
2. Demand for services or a clear market gap were the primary drivers in determining which products and services to scale up.
3. Geographic expansion was central to generating sufficient volume of transactions to reach scale.
4. Infrastructure investments were crucial to growth. Investments often increased integration of operations and facilitated product development.
5. Technology investments often led to increased efficiency and cost savings.

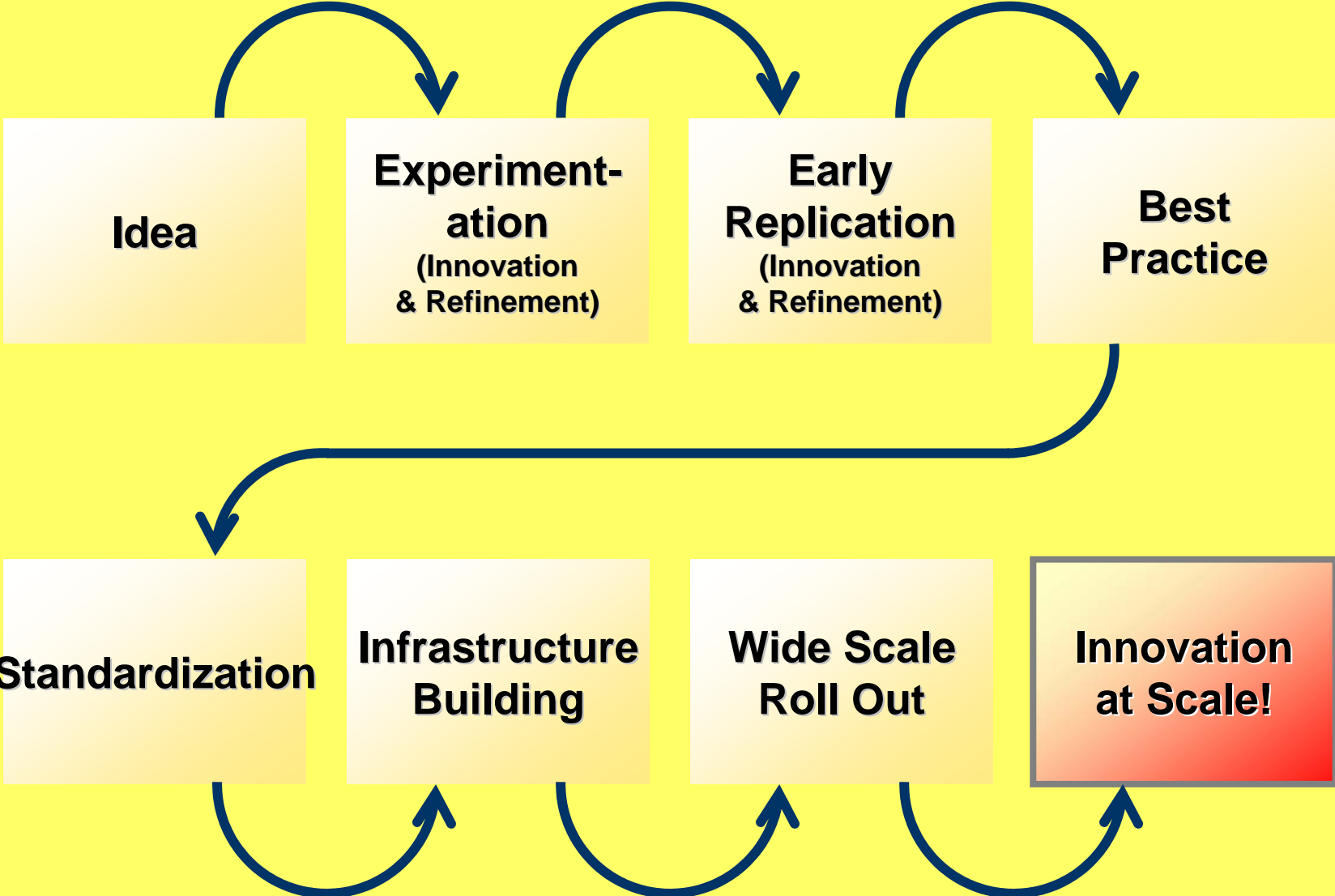
Lessons

6. Companies partnered to gain specific knowledge or expertise, or to access a needed component of the product or service.
7. Capital was raised several times; the volume of capital raised was tens of millions in every instance.
8. Several organizations changed their legal structure to accommodate growth.
9. Regulatory changes often supported or enabled growth and expansion.
10. Different management skills were needed at different points in the growth process.
11. The ability to adapt to changing market conditions allowed organizations to continue growing.

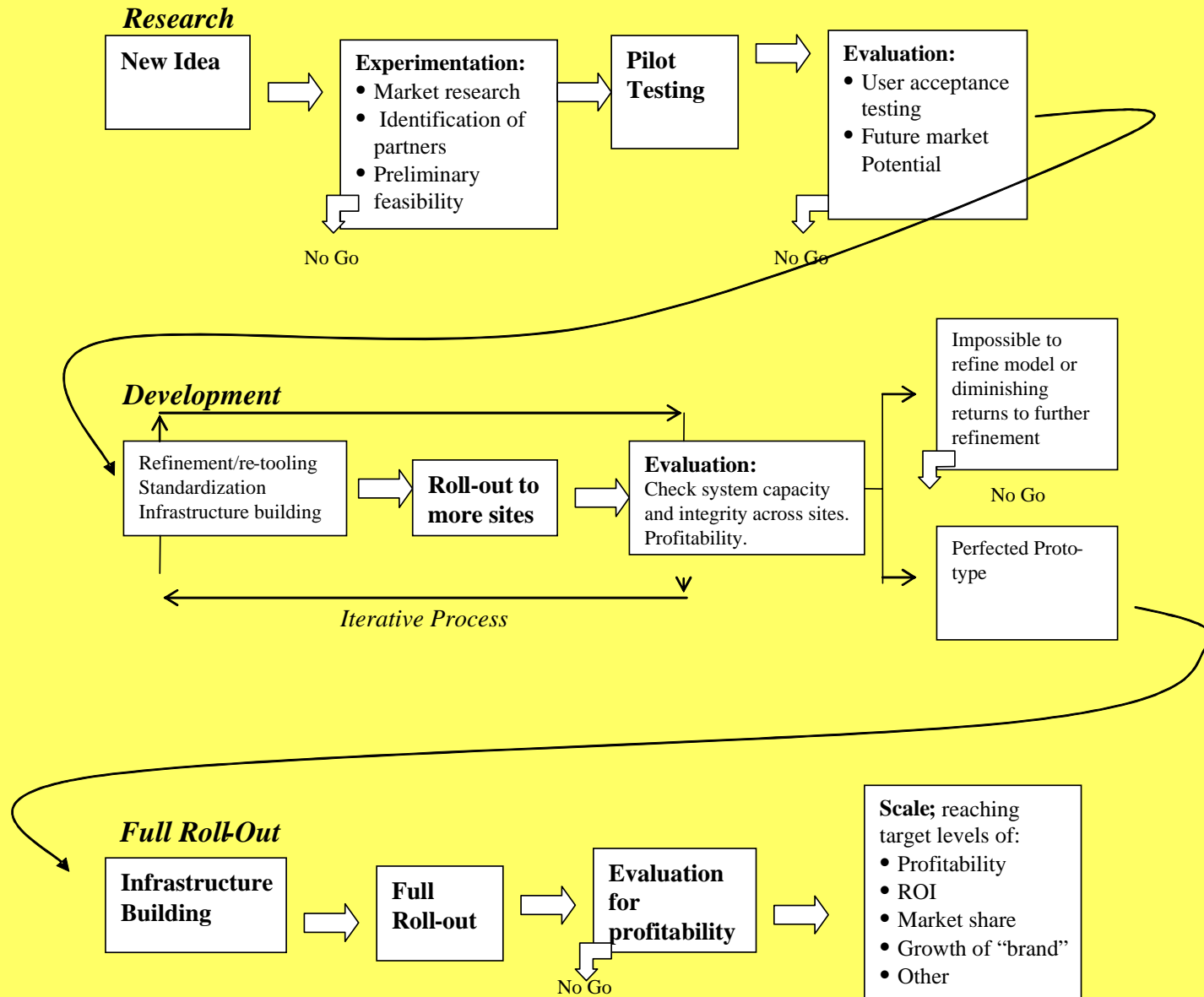
Model for Taking an Innovation to Scale



A Better Model for Taking an Innovation to Scale



Product Level



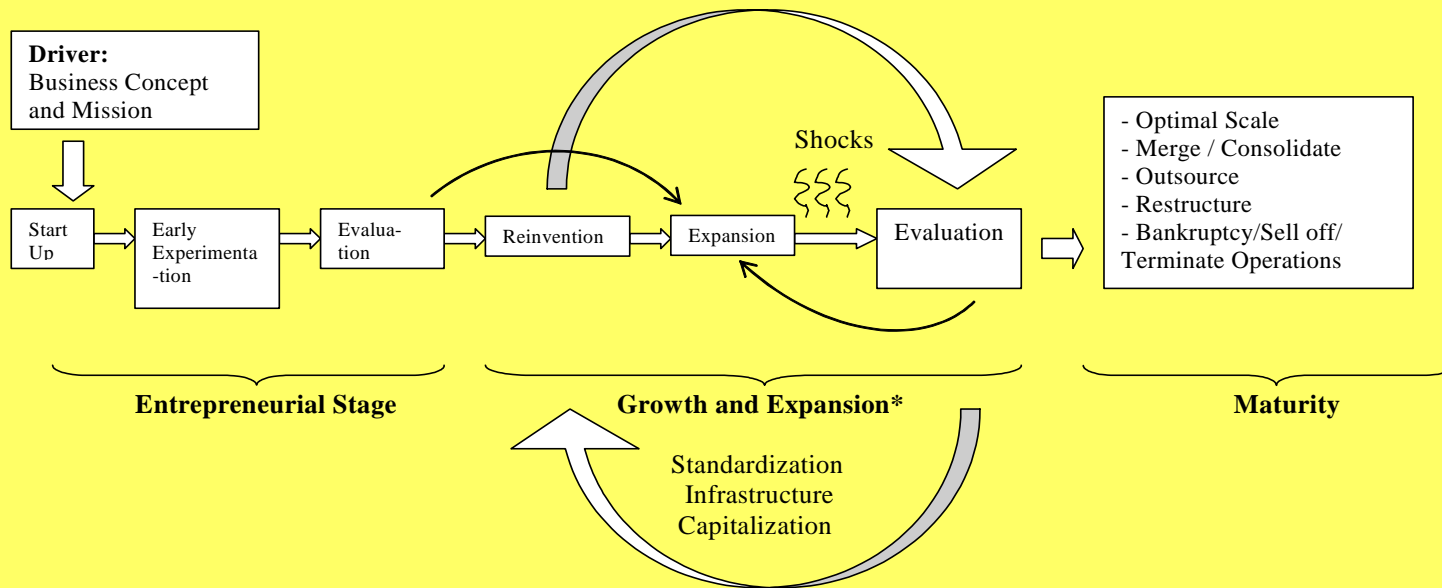
Revised Model at Product Level Suggests

- **Going to scale is not a linear, but an iterative process comprised of idea development/standardization/infrastructure building/testing and evaluation at every stage.**
- **The process takes far longer and cost far more than any of us would like to think or can support.**
- **It is likely that many (most?) developing products will be rejected along the way.**
- **A full rollout cannot be staged until there is a perfected prototype – something we rarely achieve in the CD world.**
- **Implicit in the model is strong product demand (i.e., broad acceptance or desire for a product), if scale is the ultimate goal.**

The private sector does not think in terms of “building scale,” but of reaching target levels of profitability, geography, market share, brand dominance.



Organization Level

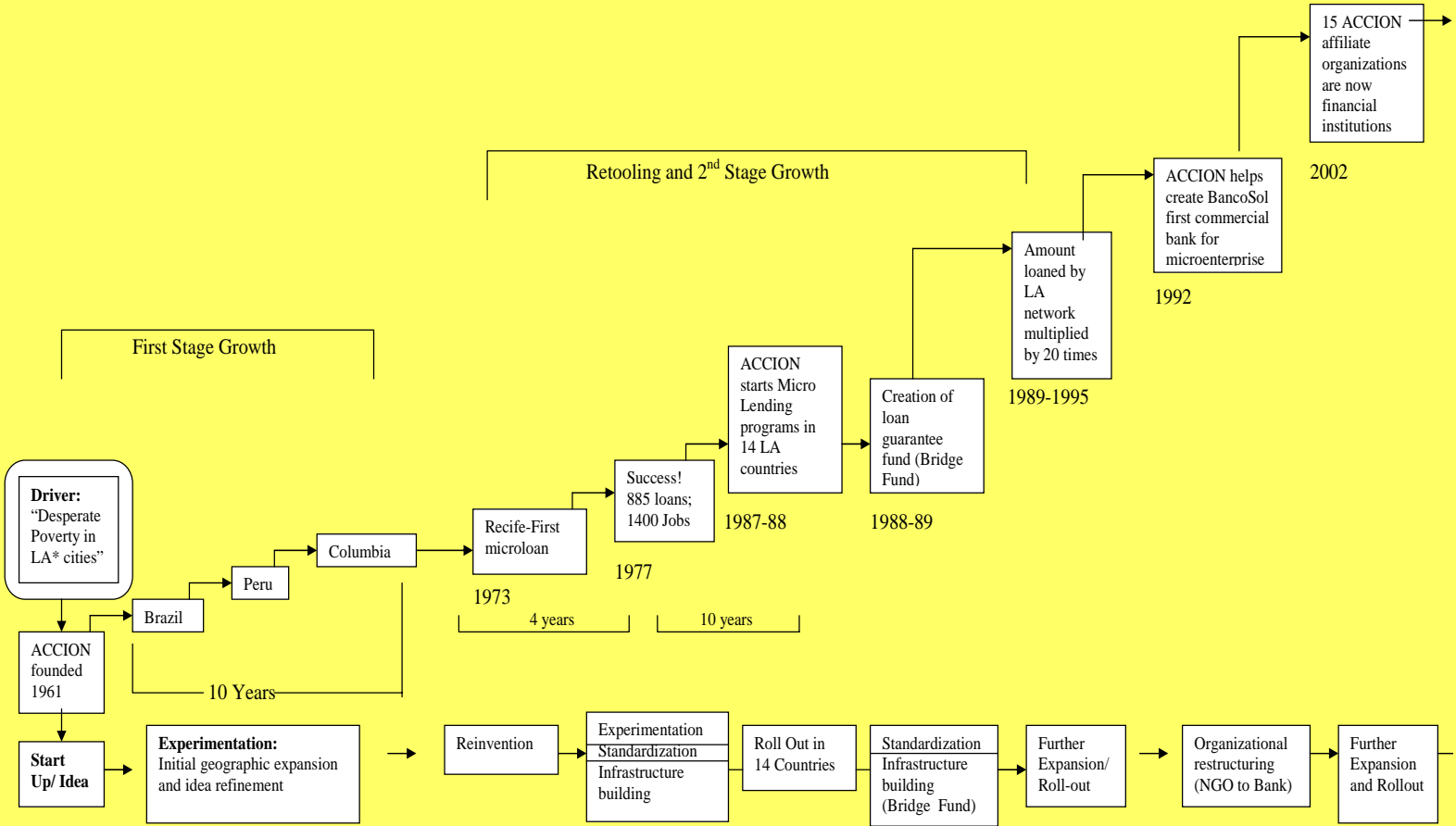


* Growth and Expansion (reinvention, expansion and evaluation) may occur along multiple product lines, in growing or expanding markets or with greater penetration of a single product within the existing market.



Organization Level Model: ACCION

Retooling, organizational restructuring
and 3rd stage growth



*LA=Latin America



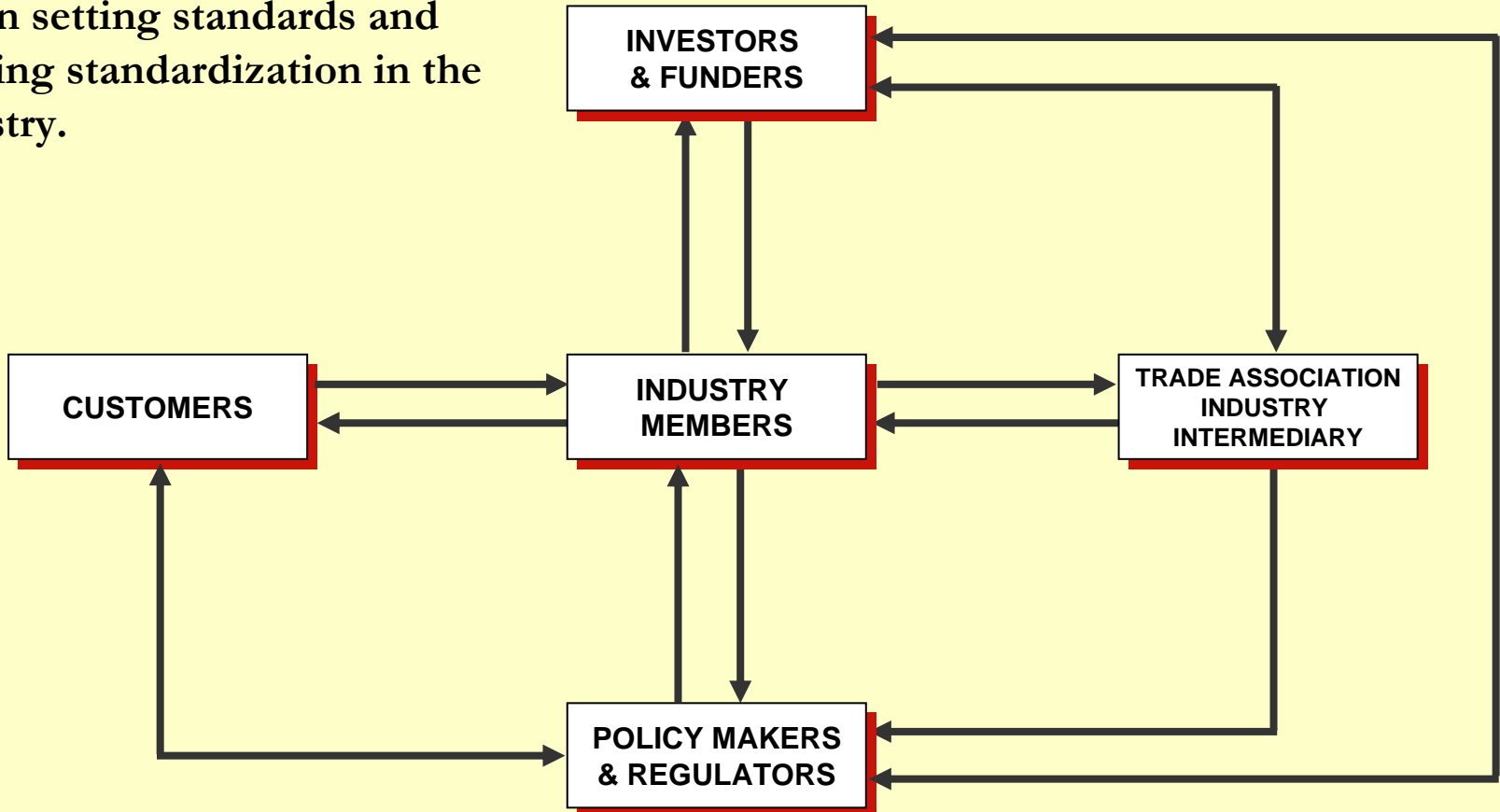
At the Organizational Level, the Model Suggests a Different Set of Findings

- **Organizational scale cannot be achieved without one or more products/services that go to scale.**
- **Scale cannot occur w/o sufficient geographic or program scope for an organization to expand.**
- **Scale cannot be achieved w/o sustainability.**
- **Key investments in infrastructure can catapult an organization to a new level of activity and impact.**
- **Need for new organizational structures and new partnerships as the organization grows.**
- **Reaching scale can take a long time, a period possibly better measured in decades than in years.**
- **Scale is a characteristic associated with networks (or an industry), not an individual organization.**

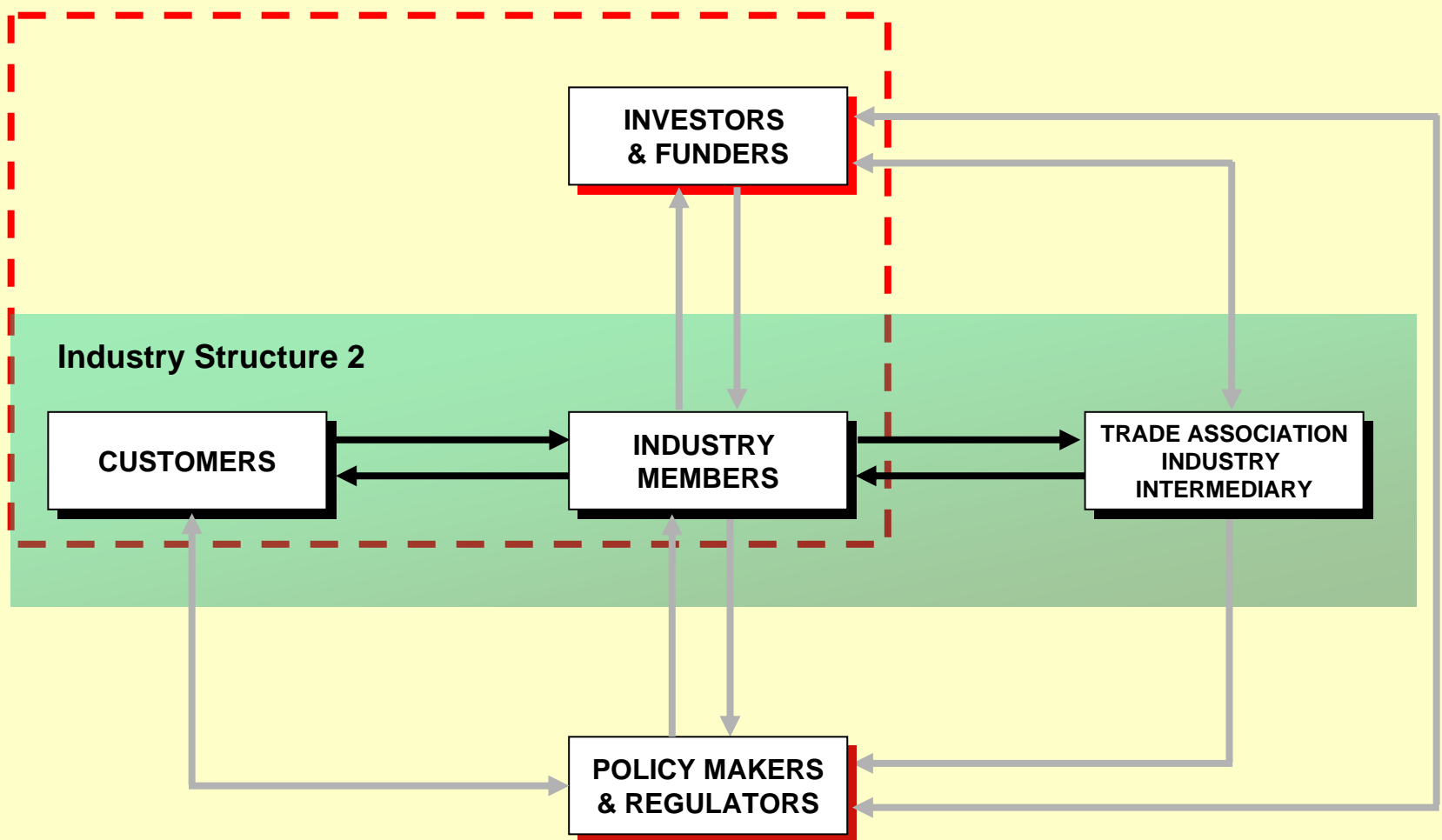


Basic Model of Key Players

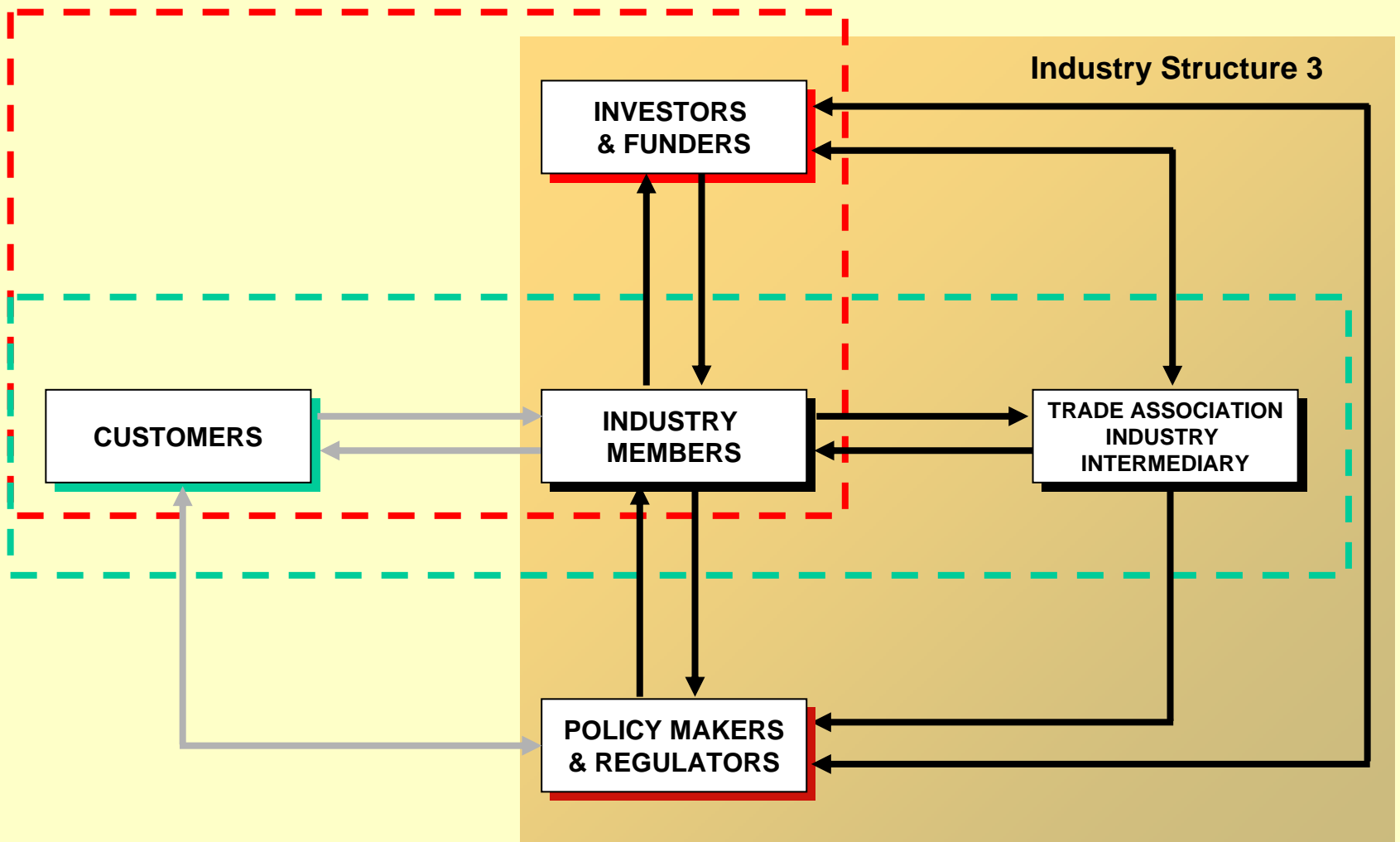
Industry leaders play a powerful role in setting standards and creating standardization in the industry.



Industry Structure 2: The Small Players Dynamic



Industry Structure 3: Subsidy Dependent



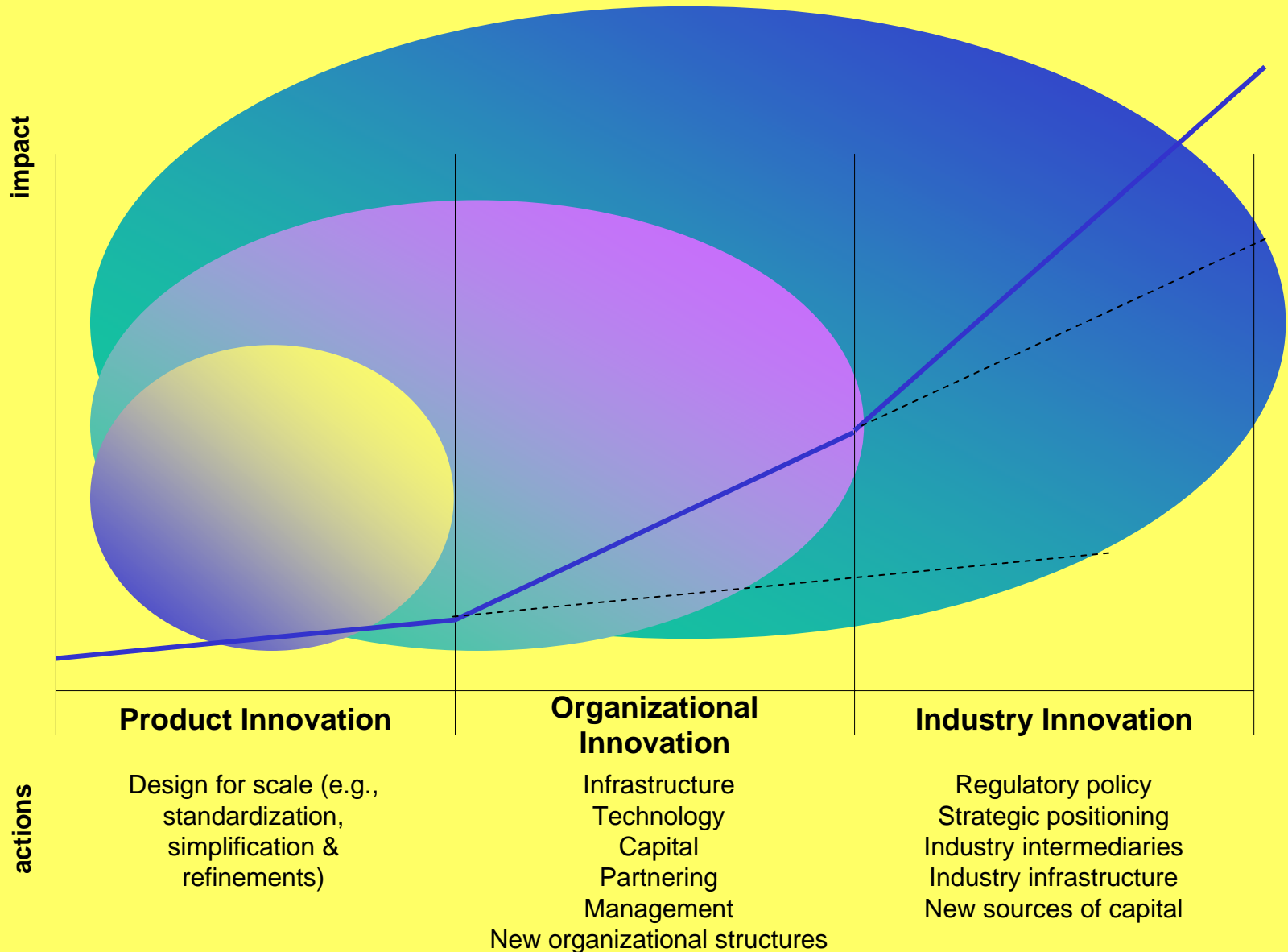
The Industry Model Offers...

further insights into the scale-up of a product, how product and organization scale are linked, and how an industry reaches scale

- **A key challenge for the CDFI industry is overcoming the disruptive effect of subsidy and building a stronger connection to the customer.**
- **We must think more about strategic positioning: what is the clearly defined value-added role of CDFIs within the financial services marketplace?**
- **With no dominant industry leaders to shape the field, how will change occur?**
- **The creation of a viable network to take an industry to scale entails at a minimum:**
 - Workable governance structure
 - Effective industry branding and communications, clout
 - Ability to raise capital from members (or others) to expand range of critical network services and supports and needed industry infrastructure.



New Pathways to Scale for Community Development Finance



Product Level Needs

- Practitioners have an urgent need for investment in the following areas of product development:
 - Market research to improve understanding of current and emerging community needs.
 - Patient capital for experimentation, reinvention and refinement of products.
 - Pilot testing and eventual roll-out of quality products that make it through a rigorous development process

Organizational Level Needs

- Practitioners have an urgent need for investment to support organizational growth:
 - Infrastructure to integrate larger, often physically distributed, operations.
 - Technology to increase efficiency, promote cost savings and higher quality services to low income customers.
 - Capital to support broader organizational needs e.g., research and development, operational cash flow, expansion capital
 - Management expertise to guide larger institutions.

Industry Wide Needs

- Improved competitive positioning of the industry possible through a series of investments in:
 - Infrastructure to support the day-to-day operations of organizations in the industry
 - Industry standards
 - Industry specific technology: e.g., cost accounting or portfolio management software
 - Branding, marketing and communications to support the industry
 - Industry intermediaries that broaden the range and increase the sophistication of the product and service mix offered by organizations

Collaborative Business Models Could Help Organizations:

- Retain local control and ownership
- Lower cost of operations
- Access larger pools of capital
- Reduce effort devoted to fundraising
- Access a more diverse universe of funders
- Access better management talent and specialized expertise
- Increase ability to reach more people



Collaborative Business Models Could Help Organizations:

- Produce higher quality programs
- Provide more diversified and comprehensive programming
- Promote long term sustainability
- Generate better pay and benefits for employees
- Access more up to date technology and infrastructure
- Create greater impact

Examples of Collaborative Models

- **CCA Global Partners**
- **Unified Western Grocers**
- **Children's Home/Chambliss Shelter**
- **Food Bank for New York City**
- **Housing Partnership Network**
- **The EarnFair Alliance/Seedco**
- **NeighborWorks!**

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THE ASPEN INSTITUTE

Contact Information

Kirsten Moy

Director

Economic Opportunities Program

The Aspen Institute

One Dupont Circle, NW, Suite 700

Washington, DC 20036

kirsten.moy@aspeninstitute.org

