INNOVATION

Asset Building
THROUGH CREDIT PILOT

BUILDING A SUSTAINABLE BUSINESS MODEL

LUZ I. GOMEZ AND JOYCE KLEIN

FIELD at the Aspen Institute

Citi Foundation

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FIELD at the Aspen Institute works to advance the U.S. microenterprise field through knowledge and innovation. In its work, FIELD engages deeply with leaders in the microenterprise industry and provides them and their organizations with tools — including research and data, grants, peer learning, and leadership development programs — that support their efforts to innovate, scale and improve their performance. FIELD also disseminates knowledge from its work with leaders broadly, through publications, webinars and presentations.

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Introduction

Nonprofits and business models

> "It is difficult to talk about business models without sounding like a candidate for Wonk of the Year, but street-smart managers know that the concept is at the heart of successful management. Strong business models bring programmatic and financial success, while weak ones bring irrelevance and even ruin.
>
> The classic nonprofit has to create a successful mix of three elements: resources, program design, and impact. All of these components have to be successful and fully aligned or the model won't work. Any given nonprofit can be said to have a single business model for the entire entity, or it can have several models for different programs and services."
>
> **Thomas McLaughlin** in *The Nonprofit Times*[1]

Nonprofits that participate in pilot initiatives often face the challenge of sustaining a successful program or project once the pilot phase has ended. Recognizing this challenge, as we neared the end of the Asset Building through Credit (ABC) pilot, FIELD worked with two of the participating sites — the Mission Economic Development Agency (MEDA) and Pacific Asian Consortium in Employment (PACE) — to explore development of a business model that would enable them to continue to offer a secured credit card teamed with credit coaching. We focused on the business model because, in an increasingly competitive funding environment in which funders are asking tough questions about the value of investments, nonprofits that can articulate a clear rationale for a line of business can find a competitive advantage.

The key questions explored in developing the business model were:

- Is it possible to sustain the delivery of a secured card teamed with coaching?
- How can the experiences from the pilot inform the business model for the product?
- What is the business case for delivering the product in partnership with a financial institution?

This paper summarizes the approach and tools used in the process of developing the business model, and the key conclusions from these explorations. Although the document focuses on the delivery of credit-building services, the process it outlines can benefit any nonprofit seeking to take a strategic approach to analyzing the value of its services and the best investment of scarce resources.

About the **Pilot**

The Asset Building through Credit Pilot Program — a collaborative program facilitated by FIELD at the Aspen Institute with six microenterprise organizations, a financial institution and the Citi Foundation — was designed to assess whether a secured credit card teamed with financial coaching could create positive credit-building behaviors and be a useful tool for assisting clients to progress toward their business development goals. For more on lessons and outcomes gleaned from the pilot, visit: www.fieldus.org/project/securecard.html.

[1] Thomas McLaughlin, "Your Nonprofit Business Model: Is is really that healthy?", *The Nonprofit Times* (December 19, 2011).

The tools

Put simply, a business model describes the rationale of how an organization creates, delivers and captures value. FIELD employed two tools as it worked with the pilot sites to study these questions of sustainability: the *Business Model Canvas*[2] and the *Lean Canvas.*[3] Both tools allow organizations to analyze the business model for either a single line of business, or the overall organization.

Getting *Started*

1. Review *Lean Canvas* instructional videos and materials.
2. Form an internal team.
3. Define the issue to explore.
4. Create milestones to chart your progress.

The *Business Model Canvas* helps teams to jointly describe, think through, or amend their business models. The original *Business Model Canvas* (pictured on the next page) has nine boxes that together represent the core elements of a business model. Each box has several questions to get users thinking about that aspect of the model. If a large poster-sized version of the model is used, a team can write, draw or use Post-It® notes in the boxes, and add lines to show how different elements of the model connect to each other.

The authors of the *Business Model Canvas* recommend that users start with the customer box at the right of the canvas — with the rationale being that any line of business should begin with a focus on the customer. The analysis process then works through the rest of the model. The final area of focus is financial viability. Business models often are reduced to considerations of costs and revenues. As this framework illustrates, the financial structure undergirds everything else in the business model — it has to work in order for the rest of the model to succeed. However, the *Business Model Canvas* (on the next page) is designed for organizations to focus first on defining deep customer problems and accompanying solutions, in order to build a strong foundation for the entire line of business.

The second version of the canvas, and the primary one that FIELD used in working with the pilot programs, is the *Lean Canvas.* This version of the canvas (pictured on page 5), amended by an entrepreneur, makes a clear distinction between the product/service being offered and the market for that good. FIELD found this distinction to be very helpful in honing in

[2] Alexander Osterwalder and Yves Pigneur, *Business Model Generation* (self-published, 2009). To access a copy of the canvas see http://businessmodelgeneration.com/canvas/bmc

[3] See http://leanstack.com/, for more information on the *Lean Canvas*.

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

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

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

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

CATERGORIES
Production
Problem Solving
Platform/Network

Key Resources

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

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

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?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

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
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

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?

CHANNEL PHASES
1. ***Awareness***
   How do we raise awareness about our company's products and services?
2. ***Evaluation***
   How do we help customers evaluate our organization's Value Proposition?
3. ***Purchase***
   How do we allow customers to purchase specific products and services?
4. ***Delivery***
   How do we deliver a Value Proposition to customers?
5. ***After sales***
   How do we provide post-purchase customer support?

Customer Segments

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

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

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?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

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?

TYPES
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation (bargaining)
Yield Management
Real-time-Market

on the customer and the value proposition (offer), as well as the market channels, for a secured credit card. The *Lean Canvas* adds a box for **problem definition** — the problem the organization is trying to solve for the customer. The underlying thinking is that, when a problem is clearly stated, it is easier to design a **possible solution,** which has its own box in the canvas, as well. The *Lean Canvas* also pushes users to identify a few critical metrics they can use to quickly evaluate and measure success (with the hope that the organization will evaluate and use that information often). The final addition to the *Lean Canvas* is a box titled **"unfair advantage."** This portion of the Canvas reminds organizations to define their competitive advantages early on, and to continue to develop and articulate that advantage.

The *Lean Canvas*

Exploring critical areas of the business model

The organizations used these resources to examine several important questions related to the sustainability of offering a secured card combined with credit coaching:

- What value did the program offer to its clients, and to donors? Can that value be articulated clearly?
- What were the messages and positioning of the product that resonated most with clients?
- Who are the "right" clients to target within their market?
- Given the experience with the product during the pilot phase, what could the organization reasonably project in terms of volume and scale in the future?
- What were the true *total costs* of and the potential revenue streams from this product?

Both business model canvases are designed to help organizations build a strong case for their programming, and to highlight areas that need further work and refinement. In using these tools to analyze their business models for delivering a secured credit card, both MEDA and PACE had more than one year's worth of data collected as part of the pilot evaluation, as well as the organizational experience gained during the pilot phase.

The “offer”/value proposition

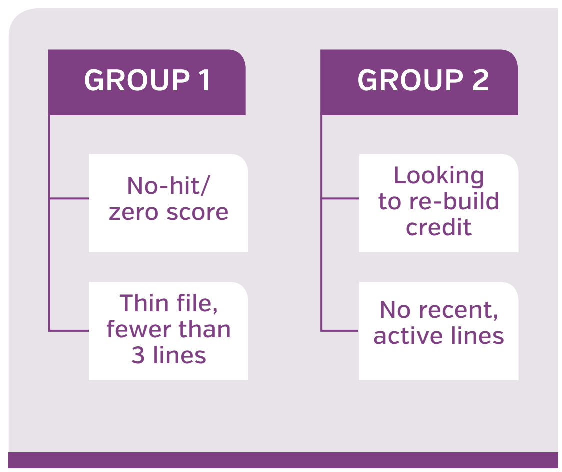
Why it matters

“A lot of people could benefit from credit, but who really stands out as our strongest customers? The canvas helps us tell a story. It’s fleshed out and comprehensive. It’s simple. It’s important to know what and why we’re doing things in a certain way and for whom. We can really gain a lot of momentum for this about ways to improve, specify, and become clearer. Ultimately, it’s a safer experience for our customers.”

Program manager

The first exercise in the Canvas involved pinpointing the ideal client for these credit-building services. Most microenterprise development organizations (MDO) serve an array of client segments, and this is true of both PACE and MEDA. One key element of the pilot involved figuring out how to frame the value of the secured card and credit coaching, assessing which messages clients responded to, and observing which clients were best suited for the program.

Honing in on the client segment: The ABC pilot served two broad sets of customers: those who were new to credit, and those who had an existing low score, lacked active trade lines, and were trying to rebuild their credit profiles. The exercise in this section of the Canvas involved working with the organizations to articulate their *most important* customers. These were the early adopters of the secured card, who proved to be their strongest customers. The challenge here was to hone in on a customer segment that was sufficiently specific to allow the organization to create effective marketing messages, but not so narrow that it overly limited the market for the product.



Both MEDA and PACE had a strong focus on immigrant entrepreneurs. These clients fit well with the organizations’ overall missions and target markets. Immigrant entrepreneurs also showed strong uptake and performance on the card during the pilot phase. MEDA defined its “ideal” client as “San Francisco low-to-moderate income (LMI) immigrant entrepreneurs.” PACE defined its idea clients as “immigrant business owners for whom credit has been an obstacle for access to capital or financial products/services.”

Defining problems and positioning of the services/product: Once the organizations had identified their focus on immigrant populations (Latino and Asian immigrants), they were urged to identify between one and three problems or “pain points” facing those customers. The organizations were also encouraged to identify what their “early adopters” were already doing to address those problems. In doing so, the hope was that organizations would frame solutions, and unique and compelling value propositions that addressed the pain points they had identified. A **unique value proposition** seeks to distinguish a product or organization in the marketplace by encapsulating the value it delivers to its customers into a single, clear and compelling message that can turn someone into an interested prospect.[4] The problems identified for these immigrant entrepreneurs included: language and cultural barriers, the absence of clear information regarding credit building, and a lack of trust in traditional financial institutions.

The experiences of MEDA and PACE in marketing the card during the pilot phase yielded important insights into the value proposition of the product for their target markets. First, they saw that their target markets responded more strongly to the product when it was marketed as part of a process for building credit, rather than as a financial product. In other words, customers responded to messages about improving their credit, rather than those that focused on accessing a credit card. Second, the personalized coaching played a central role in the value proposition. Many of the target market customers were intimidated by, or had a lack of trust in, financial institutions. The role of a counselor or coach who could be a source of trusted information and support, and could assess each client's specific credit history or challenges, was clearly a key part of the value proposition.

Below are the unique value propositions developed by MEDA and PACE:

MEDA

Problem Definition	Solutions	Unique Value Proposition
Lack of information and trust in U.S. financial institutions Language and cultural barriers to accessing and understanding credit in San Francisco.	Generate and distribute consistent, targeted, and accessible bilingual and culturally relevant information to San Francisco consumers and partners. Build trust through methodical, outcomes-based personalized financial coaching. Offer cost-effective appropriate credit-building products	**Safe, accessible products** that establish and/or build credit for San Francisco LMI Latino immigrant entrepreneurs coupled with **personalized financial coaching**.

PACE

Problem Definition	Solutions	Unique Value Proposition
Language and cultural barriers and access to resources. Lacking credit-building and credit-management knowledge.	Providing credit-building training together with credit-building tools (i.e., secured credit card), credit counseling and relationship building.	We offer a comprehensive credit-building **gateway** with **personalized** and **culturally relevant coaching** to reach financial goals at **low or no cost.**

[4] See http://leanstack.com/, for more details on the *Lean Canvas.*

Making the case to supporters/investors

Laying out a clear and compelling value proposition for a product or service is critical to capturing clientele. However, most nonprofits also have a second set of "clients" in the donors and investors who partially or fully subsidize the cost of the services they provide. These donors and investors are seeking their own value propositions, which may differ from those of the direct users of the product. In fact, the value proposition may vary among donors, depending on their interests and perspectives.

> "MDOs often know how to create and deliver value to their customers or clients, but it's the capturing of value by the institution that's often the hard piece."
>
> *– Elaine Edgcomb, FIELD*

Thus, another aspect of FIELD's work with MEDA and PACE focused on exploring sources of revenue to support delivery of the secured card and coaching, and the value propositions and messages needed to position this line of business to resonate with various funders. The table below identifies the revenue streams discussed with both organizations and the types of value that could be of interest to each stream.

Revenue Streams	Types of Value
Client fees	Increases to/establishment of credit scores
Foundations	Increases in credit scores and financial capability
Financial institutions	Community Reinvestment Act (CRA) credit Expanded client relationships with "new" unbanked/ underbanked customer base
City governments	Interest in innovative asset-building strategies; bringing together private/nonprofit actors to address underserved populations
Local corporate partners	Support for/services to local low-income families

Once each organization identified the value that the product could provide to different funders, the next step was to work with its development team to translate that value into specific marketing and fundraising strategies and messages that would connect to each revenue source. This process included describing the competitive advantage that the organization offered in this particular space. The *Lean Canvas* uses the term "unfair advantage," which it defines as the attributes that cannot be copied easily by other organizations. MEDA articulated this well within its canvas:

> *"MEDA provides a bilingual, streamlined client experience. It has product knowledge paired with cultural competency. Its partnership with a local financial institution allows the client multiple payment points, and the personalized coaching and follow-up is supported with text messaging and online banking supports."*

Start-up and ongoing costs of the pilot

On understanding costs

"This process of working through the numbers and cost structure as part of the *Lean Canvas* … links us to the efficiency that our clients want; our donors want, and ultimately, that we want."

Program manager

One of the key elements of any business model is the financial model that specifies both costs and revenues. The evaluation model for the pilot included a process of collecting detailed cost information for both the start-up phase (the program-development phase before the secured card was actively marketed and delivered), and on a quarterly basis during the first year of card delivery. The evaluation process also collected monthly time sheet data.

> Although information about revenues (in the form of donations, grants, and earned income) is usually fairly solid, organizational knowledge about costs tends to be weak.[6]

The start-up costs of the organizations that participated in the pilot varied depending on their existing infrastructure (primarily staff) for providing credit-building services.[5] In terms of ongoing costs during the first year of card delivery, the highest expenses across all of the five pilot sites were those related to staff and benefits, because the coaching model was integral to marketing and delivering the product. The total program-delivery costs incurred by the sites during the pilot year (excluding start-up costs) ranged from $23,462 to $48,061.

Understanding the full costs of running a program like this requires that an organization take into account both the direct costs (e.g., staffing hours, marketing) and the indirect costs (such as overhead). While nonprofits tend to document revenues effectively, many nonprofit accounting systems do not allow organizations to track and allocate costs effectively at the program or product level. MEDA and PACE used the financial and time sheet data collected as part of the pilot evaluation to conduct a cost-accounting exercise (sample shown on the following page) that analyzed program performance, costs, and revenues during the course of the pilot. That baseline analysis, along with learnings about staff deployment and efficiencies gained during the pilot, informed their projected costs going forward.

> "What was shocking was calculating the costs … It forces you to think about how much time you are spending with clients."
>
> *– Program manager*

One indicator of efficiency is the **cost per client** served.[7] The cost analysis conducted by MEDA and PACE revealed that the key cost drivers for the program were staff hours and overall client volume. Specifically, the fewer clients served and the greater the number of hours spent coaching or marketing, the

[5] For more detail, see *Asset Building through Credit Pilot: Initial findings,* 20-21.

[6] Susan J. Colby and Abigail M. Rubin, "Costs are Cool," The Bridgespan Group (December 2003), 2.

[7] Cost per Client measure represents the average cost of serving a client in the fiscal year. It is calculated by dividing the total cost of the program by the number of clients served during the year. See http://microtracker.org/resources/microtracker/pdf/MT-Glossary.pdf.

higher the cost per client. Those two factors (hours spent marketing and coaching) are also the levers that a program can pull as it works to reach and serve clients most efficiently.

The cost accounting exercise revealed the following insights for both programs as they considered the long-term sustainability of the product:

- **Identifying and focusing on the most effective marketing channels yields greater scale and lower costs.** Both MEDA and PACE refined their marketing channels to increase the volume of clients later in the pilot. For example, although PACE used general marketing strategies at the onset of its program, it found that most of the clients who were well suited to the card came in via its credit workshops, and through specific community partners. MEDA found that standardizing all of its marketing materials to describe its array of asset-building products and services (including the secured card) helped maintain a steady pipeline of clients for the card. MEDA also drew compatible clients primarily from its existing business development training. Understandably, the cost per client varied over the course of the pilot; both MEDA and PACE's costs per client went down during the last two quarters because of adjustments to their marketing channels and strategies.
- **Tailoring the level of training to the customer's needs can also provide efficiencies.** Coaching hours were another main driver of cost during the pilot. FIELD's outcomes analysis showed that *more hours of training* did not have a significant effect on credit scores or credit behavior during the period measured.[8] The finding suggested that organizations might want to consider the number of hours dedicated to education carefully, as they seek to balance the client outcome from the program with the organizational need for efficiency and sustainability. Moreover, the study showed that programs might benefit from allocating their time more efficiently by client segment. For instance, it appears that clients with low existing scores may need more intensive guidance and reinforcement regarding use of the card than clients with no scores.

As MEDA and PACE worked through future projections for these services, the coaching teams thought critically about the level of training time per client that they felt would produce both strong results and efficiencies. During the course of the pilot, sites had already begun to experiment with reducing the cost of delivering the card by, for instance, using classroom sessions to address basic credit concepts before clients met with counselors one-on-one.[9] MEDA planned to achieve greater efficiencies by incorporating lower-touch client check-ins using text messages to emphasize coaching messages regarding on-time payments. Its coaching staff also sharpened its message and standardized the process for delivery, which also had implications for cost savings.

To illustrate the use of this cost-accounting exercise: During the first 12 months of the pilot, MEDA served 48 clients. The organization averaged 25 hours of staff time per client during that period. These hours included those spent on marketing, coaching and training; managing the program; and providing evaluation data. Given MEDA's staffing cost structure (direct costs) and indirect costs, its costs averaged $874 per approved client. As MEDA projected forward based on its analysis of past costs and lessons learned, it anticipated it could dramatically reduce the number of marketing hours by

[8] For more detail, see *Asset Building through Credit Pilot: Client Gains in Credit Scores and Financial Capability*.

[9] For more detail, see *Asset Building through Credit Pilot: Initial findings*.

focusing on its most successful channels, and decrease its coaching time to 7.5 total hours per approved client.

	Hours per Approved Client	Projected
Costs & Hours		
Hours spent coaching, training, monitoring clients	13	7.5
Hours spent marketing /recruiting	10	0.5
Hours spent administration/evaluation	2	2.5
TOTAL HOURS SPENT	25	10.5
Avg. hourly rate (including fringe)	$33	
No. of approved clients	48	200
Total cost per client	$825	$346
Cost per Client (including overhead and other operational costs)	**$874**	**$426**

How many people need to be touched to get volume desired?
How long does it take to get them through the process?
Where are the cost challenges?
Where can one decrease costs to be more reasonable?

As MEDA thought through the costs and benefits of its coaching model, seeing the results from the cost exercise was an "aha" moment for its team. Given that the organization is continuing to offer a secured card teamed with coaching, it was particularly concerned with developing a lean, high-impact model for this line of work that could be sustainable in the long term. The team thought that it could cut its cost per approved client in half, to an estimated $426. This analysis seems to bearing fruit, as MEDA's carefully reengineered credit-building program has grown substantially over the first half of 2014.[10]

Evaluation/metrics

The final piece of the Canvas involved determining the set mix of metrics that would allow the organization to track and analyze the program's success in meeting its goals on a relatively frequent basis. Key metrics can identify areas that need work — so they can be addressed early. In working to identify key metrics, FIELD and the two grantees laid out several categories of metrics related to the credit-building programming, as well as more general categories also relevant to the organizations' other microenterprise work. These included:

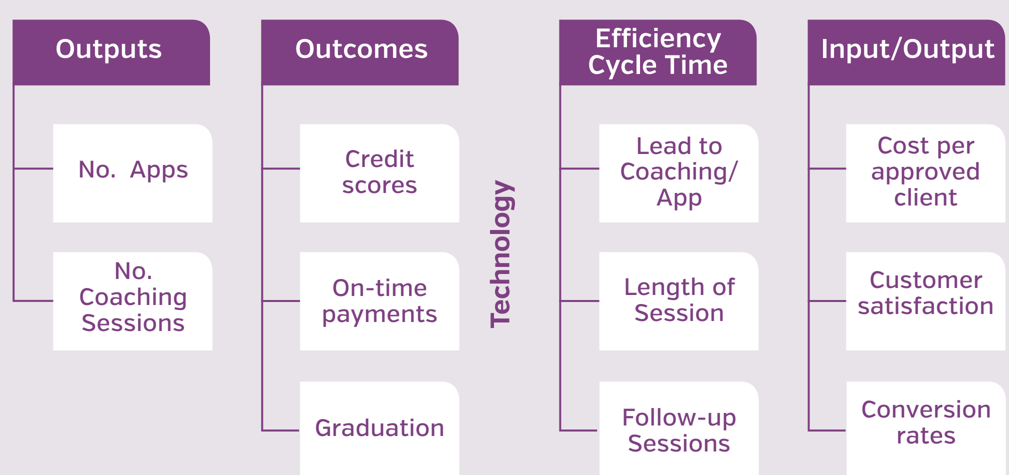
- **Simple outputs:** These could be the number of applications processed or coaching sessions provided, for example. Output metrics are useful in helping programs to see the overall volume of a program. While they are typically the simplest metrics to

[10] For a brief synopsis on MEDA's newly launched credit-building program, see http://www.cfsinnovation.com/content/engaging-clients-right-time-and-place.

collect, other categories of metrics (such as those outlined below) are important to deepen assessment of a program.

- **Client outcomes:** The ABC pilot involved collection of data on a substantial number of client outcomes metrics. Although organizations may not want or have the resources to collect this level of data on an ongoing basis, identifying and collecting data on a few key outcomes metrics can be highly valuable for internal management purposes, as well as for fundraising. The most valuable client outcomes for this program would likely be client credit scores over time, on-time payment on the secured card, and the rates at which clients graduated to an unsecured credit card or other forms of credit.
- **Efficiency/cycle time:** Measurements related to cycle time can be a highly useful means to assess efficiency. Cycle time relates to the time it takes to get clients through the process of accessing a financial product. In this type of credit-building, a program would monitor how long it takes to get from first identifying a lead to a complete application. FIELD also urged programs to think about how strategies/tactics such as the use of technology might play a role in increasing efficiency and improving client outcomes. The use of technology, such as MEDA's planned use of text messaging, could, for example, have an impact on metrics such as on-time payments (an important metric of client outcomes) or the cost of client follow-up (an important measure of efficiency).
- **Inputs and outputs:** Metrics that examine a program's inputs relative to its outputs are also highly valuable in assessing and refining its business model over time. The cost per approved client metric evaluated in the cost-accounting exercise above is one example of this type of metric. Customer satisfaction is another input/output metric. Organizations can collect data on customer satisfaction by conducting surveys at key moments in the process (such as after a coaching session, or six months after the customer has applied for and received the secured card). Conversion rates (measured from the time a lead is first generated to the time of the first coaching session is provided, or a card application is submitted) can be used to assess and monitor the effectiveness of particular marketing strategies.

Identifying the key numbers that show how you are doing in real time.



Conclusion: Where do I start?

We encourage organizations to try the process of analyzing the business model for one of their products or programs, using the tips and tools provided at the beginning of this publication. The beauty of these business model canvases is they enable an organization to synthesize the deliberation around a business model in one place. FIELD has seen programs use these simple tools to explain the rationale for a new or existing business model to stakeholders (staff and/or board members) and potential investors. Articulating what can often be complex business models can also enable a nonprofit to effectively deploy and manage teams, raise funds, and strengthen its work. The analysis process can reveal strengths in a business model and point out potential weaknesses, both of which can illuminate the path toward sustainability.

For More Information

For more information on the Asset Building through Credit Pilot Program and Building a Sustainable Business Model tools visit:

http://fieldus.org/Projects/SecureCard.html

http://leanstack.com

http://businessmodelgeneration.com

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