

Re-Imagining Business Development Services (Technical Assistance)

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Background

- The CDFI industry has clear standards, guidelines, and metrics for the operation of a loan fund.
- We can't say the same for business development services. Why?
- BDS is a key strategy to support portfolio performance and mission.
- Requires a formal structure to sufficiently support loan clients' path to sustainability and growth.
- BDS is a "product."



Show of Hands - What do you call it?

- Technical Assistance or Business Development Services?
- Government agencies (except CDFI) use "TA."
- Messaging: Internal vs. External?
- We prefer to use BDS, not primarily because it is used by the CDFI Fund.
- Because it better describes the WHO and the WHAT.
- Accurately represents to our clients what we are accomplishing with them.



In our travels, we have found that....

- In many cases, BDS is an after-thought, lacking a discrete strategy for client engagement outside of an annual site visit, a workshop, missed payments, restructurings, etc.
- Not well-articulated at closing, on websites or collateral materials.
- There are no established metrics to measure success.
- If we don't know what we are really delivering, how can we possibly articulate our service product to our clients?



What goals should BDS support?

- **Mission:** Aligns with organizational mission to support underserved entrepreneurs
- **Risk Mitigation:** Risk mitigation strategy in tandem with solid underwriting guidelines.
- **Impact:** business survival, growth, jobs.



What is BDS really all about?

- Supporting the entrepreneur to **sustainability**
 - To be able to last or continue for a long time - Miriam Webster dictionary
 - The ability to maintain or support an activity or process over the long-term [business dictionary.com](http://businessdictionary.com)
 - To maintain balance

Applied to the businesses we work with....

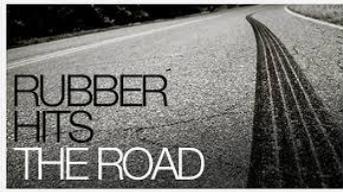
- Maintain financial balance
- Last through the ups and downs of the market
- Keep on keepin' on



Ask Yourself....



- Do you have an intentional strategy for BDS services?
- Are these goals (mission, risk mitigation, impact) explicitly stated and quantified in your strategy?
- Is BDS a product offering? What's your value-added proposition? Why should I buy?
- How do you know if the business is really growing?



The Three Legged Stool

- The trade leg
- The sales leg
- The banker leg



Without all three, the business falls over...

- Loses its **balance!**
- We must support our clients in all three key areas of their business so they have balance in their business and reach **sustainability!**



We focus on the three legs through:

- Entrepreneurial education
- Pre-loan assessment
- Post-loan support
- Additional resources





- Pre-loan relationship to prepare the client for capital.
- Post-closing on-going relationship.
- Systems for tracking compliance and impact of the organization's work.
- Marketing to tell entrepreneurs about other organizational programs.

What does it take?

- Commitment by the organization to support clients throughout the process.
- Willingness to view BDS as a product and not as a task.
- Sufficient capacity.
- Additional resources (cash and-in kind).

Effective Pre-Loan Assistance

- ASSESS Business Skill Gaps
- Assess the client's *financial acumen*
- Assess the client's *business skills*
- Prepare the client for capital
- Redirect for additional support



A closer look at the post-closing relationship

- How does it work?
- TA Flow [chart](#)



Long Term Goals



Gap assessment

- [Financial](#) acumen flow chart
- [Skill](#) assessment questionnaire
- [TA](#) Flow Chart



Hand-off to the post-closing technical assistance staff

- [Loan](#) officer memo
- Setting expectations for the future
 - BDS role
 - Providing financial statements including cash flow statement
- [TA](#) Flow Chart



Continuing the relationship

- Preparing for the initial [site visit](#)
- On-going work
 - Action Plan [Template](#)
- Financial statements including cash flow statement
- Using technology to keep in touch
- Minimize interim site visits
- Annual site visits
- [TA](#) Flow Chart

A word about delinquencies!

- It's all about cash flow
- Global debt service [template](#)
- TA Flow Chart



Tracking Compliance and Impact

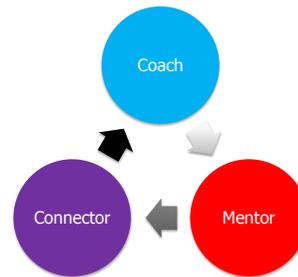
Continual contact  continual updating of:

- Jobs
- Wages (livable?)
- Stabilize/Strengthen/Expand
- Change in revenue, credit scores
- Change in low income status

Marketing and Other Programs



Role of the BDS Provider



Provider Skills

- Understanding of small business models
- Financial statement analysis
- Cash-flow management
- Communication/persuasive speech
- Creative problem-solving
- Sometimes tough-talk...



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Who We Are

- Working Solutions is a nonprofit Community Development Financial Institution.
- We provide San Francisco Bay Area entrepreneurs with the capital and consultation they need to start or grow a successful business.



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What we do....

- Micro- and Small Business Lending
- Two products:
 - \$5,000 - \$10,000
 - \$10,000 - \$50,000
- SBA Microlender
- BDS through the life of the loan

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What We Do

- Average loan size: \$22,500
- Current portfolio: 210
- Outstanding Balance: \$3.2M
- 325 loans for \$7.5M
- Anticipated FY '15 portfolio size: 250
- Languages: English, Spanish, Chinese
- # staff: 13 FTE

Our journey of rediscovering technical assistance

- Accelerated portfolio growth
 - Rising delinquency and default rates
 - Commissioned a GAP Analysis
- GOAL: a.k.a., how we set ourselves up for success?

Product & Title
Name Change:

Business Consulting Services
offered by
Business Consultants

Pre-Loan BDS

- Business Development Officers
 - Initial skills gap assessment
 - Authority to redirect for additional help
- Loan Officers
 - *Deep Dive* into financial and business skills
 - *Gap assessment*

Approved for Capital

- Loan Officers
 - Lender memo summarizing skill gaps
- Business Consultants
 - Review memo
 - Review file
 - Send introductory letter before closing
 - Attend closing

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Post-Closing Process

- Leverage pre-closing prep work
- Site Visit within 1 week
 - Continued to **assess** gaps
- Action Plan
 - Specifically **address** gaps

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Post-Closing Process

- Provide designated business consultant based on geography and industry.
- Leverage for robust tracking of the impact of our capital.
- Capitalize on the opportunity to tell our story in our marketing.

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Our Findings

- Fundamentally BC is an in-house function.
- Clear delineation of staff duties:
 - BDOs
 - LOs
 - BCs
 - Collections
- Already see our default/delinquency rates falling.
- Huge opportunity to efficiently track impact of our capital.

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Our Conclusions

- Process – implementation takes at least a year
- Iterative process
- Right hires are critical to success
- Be ready for staff push-back to change

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BUT HOW DO WE FIND THE MONEY?

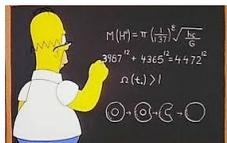


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Let's Do the Math

Assumptions

- The smaller your loan size the more difficult it is to fund BDS.
- The smaller the loan size the more BDS is needed.
- Most loans that fail, fail quickly.



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Conservative Calculation

- Portfolio of \$8,000,000
- Average loan of \$25,000
- 320 loan clients in the portfolio
- Default rate of 4%
- Goal to reduce default rate to CDFI MPS of <3%
- 4% loan loss = \$320,000
- 3% loan loss = \$240,000
- **NET SAVINGS = \$80,000** OR **1 FTE Business Consultant?**

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A Conservative Calculation

- Average client owes \$25,000
- @ 4% default rate – 12-13 clients failing/year
- @ 3% default rate – 9-10 clients failing/year
- Net Change – 3 clients NOT failing/year

Your Question

- *Could one skilled business consultant help 3 of your clients succeed instead of fail?*
- *Avg. FTE business consultant caseload: 85-100 clients*

Your Question

- *Would your organization save on collections capacity?*
- *Would more of your clients reach SUSTAINABILITY?*
- *Would your organization meet your mission more fully?*



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