Building a Value Proposition

Opportunity Finance Network
June 9, 2016

Agenda

- Small Business Financing Initiative Overview
- Today’s Topic and Presenters
- Building a Value Proposition
- Conversation with the Panelists
Goldman Sachs 10,000 Small Businesses is a $500 million investment to help small businesses in the United States create jobs and economic growth by providing entrepreneurs with a practical business education, access to capital and business support services.

The program is based on the broadly held view of leading experts that greater access to this combination of education, capital and support services best addresses barriers to growth.

Small Business Financing Initiative:
Multi-faceted program to increase the scale of small business lending by mission-driven lenders
Small Business Finance Collaborative

- 24 leading mission-driven small business lenders nationally
- Intensive two-year program of peer learning, training, and technical assistance
- Goal: Aggressive growth in small business lending
- Promotion of best practices and collaboration that support scale

Finance Collaborative Participants

[Map showing locations of participating lenders across the United States]
Today’s Presenters

Ben Wright
Director of Client Services
Montana & Idaho CDC

Wanda Speight
SVP, Financial Services
PIDC

Greg Henderson
CFO
ACCION | NM-AZ-CO-NV-TX

Context for Building a Value Proposition

- We are facing unprecedented change in the small business lending landscape

- We know that to survive, we need to change how we do the business of small business lending

- How you position yourself and promote what is special about your offering in the marketplace will make the difference between thriving and stagnating
Tool for Building a Value Proposition

Business Model Canvas, *Business Model Generation*, by Osterwalder and Pigneur

A Business Model Handbook

From Business Model Generation
By Alexander Osterwalder and Yves Pigneur (2010)
The Business Model Canvas

- The Business Model Canvas can help you to identify and connect the dots between:
  - Your most important customers
  - Your value proposition in the marketplace
  - Your infrastructure
  - Your bottom line – financial and impact
Building Your Value Proposition

Think aspirationally

- What could your organization’s value proposition look like to differentiate yourselves in the marketplace and bring qualified small business borrowers to you?

Value Proposition: Creating Value

- Speed
- Performance
- Service and delivery
- Benefits
- Customization
- Lots of features
- Cost savings
- New or unique features
- Value for $
- Guarantees
- Mission alignment

Credit: Step Change Marketing
Value Proposition Definition

- In its simplest terms, a value proposition is a **positioning statement that explains what benefit you provide for who and how you do it uniquely well**

- It describes your target customer, the problem you solve, and why you’re distinctly better than the alternatives

Business Model Canvas

Value Proposition

- **For** (target customers)

- **Who are dissatisfied with** (the current alternative)

- **Our product is a** (new product)

- **That provides** (key problem-solving capability)

- **Unlike** (the product alternative)
Questions?

- Any questions so far?

Building a Value Proposition

Ben Wright
Our Mission

Provide financing and consulting services that transform the lives of individuals and strengthen community prosperity.

Where Do We Work?

- Established 1986
- $30 million loan fund
- $9.2 million in small business lending in 2015 (80% increase over 2014)
- Montana and Idaho
What Do We Do?

- Small business loans with extensive, individualized consulting
- New Market Tax Credits
- Community Facilities Loans
- Resident Owned Community Loans

$50 Million Growth Goal
Goldman Sachs 10KSB

Growth Plan using a Lean Canvas Model to Analyze Product and Process

<table>
<thead>
<tr>
<th>Product</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption: Micro and Business loans with some consulting</td>
<td>Assumption: Make a loan, figure out what the client needs</td>
</tr>
<tr>
<td>Reality: Seven packages of financing and technical assistance</td>
<td>Reality: With seven packages, underwriting and consulting are streamlined</td>
</tr>
</tbody>
</table>

Aha Moment: We have seven loan products that we can deploy more efficiently and turn more quickly so that we don’t need additional capital.
Three Year Growth Goals

- Increase deployment percentage
  - 75-82%

- Increase loan IRRs
  - TBD – target goal in process

- Make lending/consulting packages tailored by customer segment and more efficient for the borrower
Top Priorities

- Move all loans to bankability within an 18-24 month window
- Change pricing structure to match faster runoff
- Underwrite faster and more efficiently using Jakob’s Ladder to Success

\[ -0.00112 \times \text{FICO Score} + (-0.1432) \times \text{Bank Partnership Score} + 0.1584 \times \text{Prior Bankruptcy Score} + (-0.024) \times \text{Collateral Score} + (-0.000000555) \times \text{Household Income} + 1.404 \]

- Improve technology platform to streamline lending process and enhance customer experience

Questions?

- Any questions so far?
Building a Value Proposition

Wanda Speight

PIDC
Driving growth to every corner of Philadelphia

PIDC
Who Are We?

REAL ESTATE
PIDC acquires, improves, plans, manages, leases, and sells real estate to support the next wave of industrial and commercial activity in Philadelphia.

FINANCING
PIDC offers a wide range of loans, tax-exempt financing, and technical assistance to businesses, developers, and non-profits of all shapes and sizes.

KNOWLEDGE & NETWORKS
PIDC brings together the public and private sectors in order to energize growth. We build relationships with clients and partners who are dedicated to Philadelphia’s success.
PIDC Community Capital Overview

In 1997, PIDC established PIDC Community Capital as a subsidiary to support, expand, and deliver additional resources to its mission of community investment in Philadelphia’s most underserved areas.

Mission:
PIDC Community Capital builds sustainable neighborhoods, revitalizes business corridors, and supports business by making investments that create jobs, grow businesses, leverage outside capital, eliminate blight, and provide goods and services to low income communities throughout Philadelphia.

PIDC Community Capital is:
- Certified as a Community Development Financial Institution ("CDFI")
- Certified as a Community Development Entity ("CDE") for the New Markets Tax Credit Program
- 501 c(3) nonprofit

Small Business Clients

Target Businesses:
Small businesses from a variety of sectors that are unable to access affordable, flexible capital through traditional lenders. Ideally businesses will:
- Have been in business at least two years
- Have revenues between $150,000 and $15 million
- Have at least four employees
- Are poised for growth
- Are located or plan to locate in the city of Philadelphia

Target Areas:
Low income neighborhoods throughout Philadelphia, characterized by blight, high unemployment and poverty rates, as well as low median family incomes, with a particular focus on key commercial corridors.
Value Proposition

Grow PIDC Community Capital’s support of Philadelphia-based small business owners who lack access to capital and technical assistance to grow their business.

By deepening our marketing efforts, strengthening referral networks with strategic partners, enhancing online presence management, and establishing an SBA Community Advantage designation, PIDC Community Capital will grow its business by at least 20 percent per year, as measured by the number of business served and jobs maintained/created, over the next five years.

Market Research & Strategic Planning Process

- Market Analysis
- Operational Plan
- Risk Rating System
- Capitalization Plan
Findings:
Small Business Challenges

- Small businesses in Philadelphia are unable to access affordable, flexible capital through traditional lenders:
  - Only 10% of small businesses in Philadelphia accessed credit compared to 16% nationally.
  - Businesses with less than $1 million in yearly revenue are particularly disadvantaged in Philadelphia and only 6% of these “smallest” businesses received loans.
  - Just 8% of small businesses received SBA loans compared to 14% nationally.
  - Small businesses here are half as likely to receive financing from a CDFI.
  - Out of every 10,000 African American-owned small businesses only 6 received an SBA loan in Philadelphia, which is below the national average.
  - Out of every 10,000 Hispanic-owned small businesses only 12 received an SBA loan in Philadelphia, which is below the national average.

Strategic Plan
Findings & Opportunities

- Market Need:
  - Permanent working capital
  - Lines of credit
  - Financial literacy for growth-oriented businesses

- Market Gap: Small business loans under $2 million

- Opportunity: Fill a gap for businesses that lack access to capital
  - Enhance existing financial products
  - Create new working capital products with flexible features
  - Offer tailored technical assistance and business support services to growth-oriented businesses
Business Lending Products

Working Capital & Equipment Loan
- Support small and midsized businesses that need term financing for working capital, equipment, or leasehold improvement projects to support their growth.

<table>
<thead>
<tr>
<th>Loan Use</th>
<th>Working capital, equipment, or leasehold improvement</th>
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<tr>
<td>Loan Amount</td>
<td>$50,000 - $750,000</td>
</tr>
<tr>
<td>Term</td>
<td>60 months</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6.25%</td>
</tr>
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Support small and midsized businesses that need term financing for working capital, equipment, or leasehold improvement projects to support their growth.

Contract Line of Credit
- Support small, minority, women, and disabled owned businesses which need a line of credit to fund contract-related working capital (contract must be assignable).

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<th>Contract related working capital</th>
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<tbody>
<tr>
<td>Loan Amount</td>
<td>$50,000 - $500,000</td>
</tr>
<tr>
<td>Term</td>
<td>12 months</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>2.75% - 6.25%</td>
</tr>
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</table>
Business Model Canvas
Value Proposition

How do we survive?

- Establish an online platform
- Increase conversion rates; identify better leads
- Decrease underwriting, approval and closing timeframes

Questions

- Any questions so far?
Building a Value Proposition

Greg Henderson

2015 Lending Results

- Percent Low-to-Moderate Income, Minority, or Female Borrowers: 83%
- Businesses Receiving Loans: 1,372
- Dollars Lent: $18.2 million
- Jobs Created/Sustained by Accion’s Client Businesses: 3,965
- Percent Start-up Businesses: 35%
- Repayment rate for the year: 97%
- Self-sufficiency rate: 65%

Hector Rodriguez, Topline Maintenance & Repair, Albuquerque, NM

Kayla Webster, Kracken Cafe, Las Vegas, NM
Value Proposition Step 1 – Talk to LO’s

Our loan officers are the face of Accion in their community.

We asked them the challenges to explain our value.

The value and related challenges differ depending on the audience:

- Bankers
- Community Partners
- Donors
- Entrepreneurs

Value Proposition Step 2 – Business Model Challenges

- Board directive to increase self-sufficiency and scale.
- Growing loans receivable means growing debt and equity.
- Nonprofit only grows equity by revenue over expenses.
- Pricing model is high relative to banks and other nonprofit lenders.

Kathy Jackson, Ms. Kathy’s Electric, Las Vegas, NM
Value Proposition Step 3 – Competitive Landscape

Key Competitors
- Online lenders
- Consumer loan shops
- Personal credit cards

Our Strengths
- Better pricing and terms than online lenders
- Ability to serve the underbanked

Our Weaknesses
- Slow versus online
- Lack of brand recognition

Decide Who You Are

Value Proposition Step 4 – Train Across Team

Role play rules
1. Must stay in character – no asking for a “pause” or timeout.
2. Non-employee role is to push challenging questions.
3. Feedback and coaching takes place after the role play

Develop FAQs and Talking points for each audience
Value Proposition for Clients

We offer the most competitive combination of speed, pricing and terms by evaluating our client’s business as a whole, matching loan terms to use of funds, and determining a healthy debt structure for our clients. We provide a community of support if you need it.

Sharon Ricks and Richard Blass, S & B Dollar Store, Phoenix, AZ

Questions?

- Any questions so far?
A Conversation with Ben, Wanda, and Greg

- How did your business models inform your very different value propositions?

- How do you assess if your value proposition is being delivered appropriately? What is your feedback loop?

A Conversation with Ben, Wanda, and Greg

- Any questions from the audience?
Contact Information

- Pam Porter, OFN
  - pporter@ofn.org
- Ginger McNally, OFN
  - gmcnally@orn.org
- Amanda Joseph, OFN
  - ajoseph@ofn.org
- Ben Wright, Montana & Idaho CDC
  - benw@mtcdc.org
- Wanda Speight, PIDC
  - wspeight@PIDCphila.com
- Greg Henderson, ACCION | NM·AZ·CO·NV·TX
  - GHenderson@accionnm.org