Preliminary Findings On New Pathways to Scale

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Why Pursue Scale?

- To make financial services, including credit, available to as many people as possible on a permanent and sustainable basis.

- Scale became our proxy for success. Need to better understand the dynamics of getting to scale.
What is Scale?

- Terminology is confused and words that should have specific meaning are often used interchangeably.
  - Size – measurement of dimension, extent or magnitude
  - Scale – decreasing cost per unit as volume increases
  - Sustainability – degree to which operations can be maintained with internal resources
  - Impact – to have a positive effect, e.g. increase the supply of affordable housing

Interaction among variables is important. Goal is to create larger organizations that can reach more people, tap into economies of scale and become more sustainable, and ultimately have greater impact in low income communities.
Contents of Presentation

- Initial conception and framework for research
- Quick review of cases followed by
- Lessons across the case studies
- Expansion, deepening and enhancement of model
- Preliminary conclusions
Model for Reaching Scale

- Idea
- Experimentation (Innovation/Refinement)
- Early Replication (Innovation/Refinement)
- Best Practice
- Standardization
- Infrastructure Building
- Widescale Roll-Out
- Scale

Source: Alan Okagaki & Associates
Case Comparisons Undertaken or In Process

- **Bank North**
  A bank that grew 10-fold in 10 years but maintained its community focus.

- **7-11 Vcom Expansion**
  Rollout of a new financial services delivery system utilizing technology.

- **ACE Cash Express**
  Growth of a nonbank financial institution with a broad retail presence.

- **Allied Capital**
  A diversified financial services company focusing on small & emerging businesses.

- **VISA Credit Card**
  The world’s most widely accepted payment system for consumers and businesses.

- **U.S. Single Family Mortgage Market**
  Evolution from the primary to secondary markets.

- **Self-Help/Fannie Mae Nonconforming SF Mortgage Program**
  Creating a secondary market for HLTV single family mortgages.

- **ACCIÓN International/ACCIÓN USA Retooling**
  Evolution of one of the world’s premier microfinance organizations/network.
Case Comparisons Undertaken or In Process

- **The Reinvestment Fund**
  Evolution of a CDFI into a regional community development organization.

- **Dell Computers**
  Built to order computer manufacturer and supplier.

- **Latino Credit Union**
  A financial cooperative that grew by leaps and bounds on rented infrastructure.

- **Unified Grocers’ Association**
  A California-based cooperative working to grow its members’ size, sophistication and earnings.

- **Sylvan Learning Systems**
  Basic tutoring product to improve reading comprehension.

- **Others? (Neighborhood Reinvestment Corporation, Boston Community Capital, Goodwill, Project Match, Arby’s)**
Description of Case Selection

- Industry leaders that were generally acknowledged to have successfully scaled up.

- Organizations where we had a personal contact who would provide entrée and higher quality information.

- As a group the organizations emphasized financial service delivery, and included nonprofit, for profit and cooperative models.

- Selected organizations whose business approach could serve as a model for CDFIs.
Lessons Across Cases

1. Demand for services or a clear market gap were the primary drivers in determining which products and services to scale up.

2. Companies partnered with organizations that had specific knowledge or expertise in an area the growing organization didn’t, or where the partner produced a needed component of the product or service.

3. Investments in Technology often led to increased efficiency and cost savings.

4. Significant investments in Infrastructure were also crucial to successful growth. Investments often increased integration of operations and facilitated product development.

5. Capital was raised several times at strategic points in the growth and scale process and the volume of capital raised was in the tens of millions in every instance.
6. Geographic expansion was central to generating sufficient volume of transactions to reach scale.

7. Different management skills are needed at different points in the growth process. Successful organizations recognized this and accessed the requisite skills through a variety of means.

8. Several organizations in the study changed their legal structure to accommodate future growth.

9. The ability to adapt to changing market conditions in a timely manner allowed organizations to continue to grow.

10. The profitability of new product introductions was the primary driver of product development. The ability to produce a diversified yet complementary set of products was critical to achieving scale.
Case Lessons Led to Revised & Expanded Models

◆ These models differ at the product, organization, and industry levels.

◆ Achieving scale at one level contributes to successful scaling at the next 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, and they have far more resources to do so.
The Model: Organization Level - ACCION

**An Organization/Network Model (ACCION)** restructuring

**First Stage Growth**
- **Start Up/ Idea**
- **Experimentation:** Initial geographic expansion and idea refinement
- **Reinvention**
- **Brazil**
- **Peru**
- **Columbia**
- **1973** (4 years)
- **1987-88 (10 years)**

**Driver:** "Desperate Poverty in LA* cities"

**ACCION founded 1961**

**Experimentation:** Initial geographic expansion and idea refinement

**Reinvention**

**Success!** 885 loans; 1400 Jobs

**Recife-First microloan**

**1977**

**ACCION starts Micro Lending programs in 14 LA countries**

**1977**

**Creation of loan guarantee fund (Bridge Fund)**

**1988-89**

**Roll Out:** in 14 Countries

**Standardization Infrastructure building**

**Further Expansion/Roll-out**

**Further Expansion and Rollout**

**1989-1995**

**Amount loaned by LA network multiplied by 20 times**

**1992**

**ACCION helps create BancoSol first commercial bank for microenterprise**

**2002**

**15 ACCION affiliate organizations are now financial institutions**

**Retooling and 2nd Stage Growth**

**Retooling, organizational and 3rd stage growth**

**15 ACCION affiliate organizations are now financial institutions**

**2002**

**Further Expansion and Rollout**

**Further Expansion and Rollout**

**?**

*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.
The Model: Industry Level - VISA

1959
Roll-Out:
In San Francisco and LA

1960’s
Experimentation
(innovation/research)

1968
Evaluation:
Bank of America licensee system a mess

1958
Idea:
Bank of America issued BankAmericard

Partner ID
Obstacle Removal
Standardization
Build infrastructure

Bank of America
Pilot

Driver:
Demand for Consumer Credit

Evaluation:
Customer and merchant acceptance
Error Rates
Speed of processing

1966
Early Replication:
200 banks offer credit card programs; few successes

Driver:
Industry Leader

Standardization:
The Bank Americard product

1970
Evaluation:
“Scale”
Profitability
Increased reach
Increased market share
Growth of “brand”

Infrastructure Development
(e.g. nationwide computer system to handle transactions)

On-going Rollout and Evaluation

Re-Tooling:
• Dropped delinquent accounts
• Target high profile merchants

1960’s
Evaluation:
Customers & merchants liked it, but a financial disaster

Industry Restructuring
• Creation of new industry organization and governance structure.
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

- Good ideas are not enough; an extended period of trial and error/testing and refinement may be needed even for the most promising product, along with the ability to carry the product until it is profitable (i.e., deep pockets).

- An industry leader can play a powerful role in setting standards and creating standardization in an industry.

- 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 to expand range of critical network services and supports and needed industry infrastructure.
Conclusion...

Going to scale is more complex than initially imagined

- Scale effects occur at multiple levels.
- Going to scale is an iterative process of trial and error, with the need for feedback loops and the ability to refine or retool at every stage.
- Cost is greater than ever imagined.
- Implementation of growth efforts is about the nitty gritty details of delivering the product (Einstein’s 2%-98% rule).
- The private sector does not think of “going to scale,” but of improving margins and reaching target levels of profitability and market penetration.
Observations Relevant to CDFIs

- There is a fundamental tension between being community or place-based and going to scale.

- Funders and CDFIs have focused mostly at the organization or industry level where size in terms of numbers reached defines success.

- Scale is not a realistic goal for the majority of place-based development finance organizations.

- The CDFI product mix has been developed in response to community need not sustainability.

- We have it reversed. Sustainability is the path to scale. Scale is not always the path to sustainability.

- A viable business model that incorporates long term profitability will be required.

- Investing in Infrastructure is critical to future growth and successful scale.

- CDFIs have limited mechanisms for raising the amount of capital required to successfully scale up their operations.
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POLICY FORUM

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