

Findings from the Scale Academy

Forging Ahead: Early Lessons

Introduction

Achieving greater scale has been one of the primary challenges facing the microenterprise industry for more than a decade. By the late 1990s, the microenterprise field had grown to several hundred practitioner organizations, which served an average of 200 clients per year.¹ Driven by recognition that there were an estimated two million entrepreneurs² who might benefit from services but were unable to access them, the field over the ensuing years engaged in a number of efforts to spur growth.

Those efforts yielded sporadic but not widespread success. At the same time, they and other efforts within the Community Development Financial Institutions industry yielded many lessons about the paths to and prospects for scale. As such, in 2005 the Citi Foundation – a long-time supporter of the microfinance industry both in the U.S. and internationally – asked FIELD and the Association for Enterprise Opportunity to take a new look at what it would take to advance scale in the U.S. Together FIELD and AEO conducted an extensive literature review³ and survey on the subject, and from this work emerged the Scale Academy for Microenterprise Development.

The Scale Academy, funded by the Citi Foundation and the Charles Stewart Mott Foundation and managed by FIELD and AEO, is a three-year initiative to support a set of high-performing microenterprise organizations that



Scale Academy Grantees*

- ACCION USA — Boston, Mass.
- ACCION New Mexico — Albuquerque, N.M.
- ACEnet (Appalachian Center for Economic Networks) — Athens, Ohio
- Justine Petersen — St. Louis, Mo.
- MicroBusiness Development Corporation — Denver, Colo.
- Mountain BizWorks — Asheville, N.C.
- Opportunity Fund — San Jose, Calif.
- WESST Corp — Albuquerque, N.M.

*Since the inception of the Scale Academy, ACCION USA has merged with ACCION New York; ACCION New Mexico has expanded to become ACCION New Mexico-Arizona-Colorado; and MicroBusiness Development Corporation, funded for the first year of the program, has ceased operations.

demonstrated a commitment to scaling up their operations to serve more clients. Launched in 2007, the Academy provides a combination of operational grants targeted toward organizational capacity, technical assistance and peer learning opportunities to the participating grantees.

At this point, the grantees are midway through their scale-up efforts. Thus far, they have invested in new strategies and organizational capacity, achieved some success, and also experienced the significant challenges and potential pitfalls of growth. The pitfalls in particular can be significant: in fact, during the past year, one of the grantees – MicroBusiness Development Corporation – ceased operations. While a number

¹ Jennifer A. Langer and others, *1999 Directory of U.S. Microenterprise Programs* (Washington, D.C.: The Aspen Institute, 1999), xv.

² A later estimate by FIELD estimated the size of the market to be 10 million. See Elaine Edgcomb and Joyce Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* (Washington, D.C.: The Aspen Institute/FIELD, February 2005), 16.

³ See *Lessons Regarding Scale: Findings from a Literature Review by the Aspen Institute/FIELD and the Association for Enterprise Opportunity*; available from <http://fieldus.org/Projects/pdf/ScaleLitReview.pdf>; Internet.

of factors contributed to its demise, it appears that pursuing extremely rapid and multifaceted growth was a partial cause.

Given the longstanding importance of the issue of scale – as well as new opportunities and pressures for growth brought by the changing political and economic context in our nation – it is timely to share the experiences and lessons to date from the Scale Academy.

The Changing Context

Perhaps the most important lesson from the first years of the Scale Academy is that an organization's ability to reach scale will be deeply affected and conditioned by the context in which it operates. The past year has seen enormous changes in our country's financial and economic systems, and these changes have, and will continue to have, a profound effect on the strategies and success of the Scale Academy grantees.

One of the significant changes that occurred since the launch of the Scale Academy is the crisis in our financial markets. Interestingly, some initial warning signs of this emerging problem surfaced in early discussions among the Scale Academy grantees, perhaps a year before the crisis hit. Even then, Academy grantees focused on lending were beginning to see increasing numbers of clients who were burdened by heavy levels of consumer, and in some cases, mortgage debt. While these lenders were accustomed to taking on risk that traditional lenders might not, the levels of debt were significant enough to raise questions about whether – or what level of – debt would be appropriate for these entrepreneurs. More recently, lenders are seeing existing loan clients who are struggling to meet mortgage payments that have escalated. As a result,

Scale Academy grantees with the most aggressive lending goals have had difficulty meeting their targets: both because it is harder to find new clients who can take on and manage debt, and because they are being forced to spend more time working to maintain the quality of their existing loan portfolios.

Changes in the broader economy – fluctuating gas prices, the recession, and significant declines in the stock market – also have dramatic implications for the grantees. As gasoline prices climbed in the spring and summer of 2008, grantees saw the impact on their clients' businesses. Many retail and service-related businesses sought to switch their marketing from regional and tourism-related markets to more locally oriented strategies. Grantees that offered services focused on tourism and artisan sectors experienced these trends perhaps most intensively; however, lenders such as ACCION New Mexico that cover large rural areas also saw an impact on their own marketing and operating costs.

Later in the year, as the financial crisis deepened, the extent of the recession became clear, and gasoline prices began to drop, the experiences of the grantees and their clients changed again. Entrepreneurs who earlier in the year might have been planning for growth were now seeking strategies to survive the recession. Others chose not to start or continue their business in reaction to news about the economy. Some also sought help in switching marketing strategies once more, looking again to go beyond local markets in an effort to attract more customers. In some cases, entrepreneurs who previously might have been able to secure bank financing were coming to grantees in search of capital; sometimes these inquiries were driven by banks that were now seeking a partner rather than funding the deal in full. In other cases, new inquiries for both



Defining Scale

Any conversation about scale in the microenterprise industry invariably leads to the question: "What do you mean by scale?" The research and literature conducted in preparation for the Scale Academy identified multiple definitions used by the industry.⁴ For the purposes of the Scale Academy, scale describes the goal of serving large numbers of individuals. In addition, however, we recognize that scale also incorporates the concepts of increased market penetration, and of

achieving economies in service delivery, which in turn can lead to greater organizational sustainability and deepened social impact. Finally, for the purposes of the Academy we envision that scale is about transformative rather than incremental growth; that it involves a significant departure or leap forward in an organization's way of doing business. The grantees selected were judged to already have made significant progress in increasing their scale, and to be pursuing strategies with the potential to yield further significant advances.

⁴ "FIELD-AEO Scale Survey Findings" (Washington, D.C.: The Aspen Institute/FIELD, 2006), 3. A survey of 135 microenterprise practitioners found that while a majority define scale as the number of clients served in a given fiscal year (73.9%), many also defined it as market penetration, cost-efficiency, loans outstanding, organizational size as defined by budget, and in other ways.

loans and business development services came from individuals who had lost their jobs or were looking to create a secondary source of income. However, while demand from these sources was increasing, some applicants had seen their business cash-flow deteriorate due to economic conditions, or presented credit reports that showed patterns of risky consumer credit management. At the same time, some grantees found that funding commitments and opportunities were delayed or disappeared as corporate and philanthropic donors were forced to cut back due to declining earnings and endowments.

These dramatic changes in context impose constraints on programs, but they also create opportunities. Grantees are clearly experiencing increased demand for their training, technical assistance and access to markets services, and several have offered new or modified services to respond to that demand, as is described in this report. Even on the lending side, while grantees are wary of providing their existing business loan products to customers who may lack the wherewithal to repay, there are efforts to provide financial literacy and credit building and repair products that can help these customers position themselves to be stronger loan customers in the future. Of course, responding to these opportunities requires that grantees not only switch strategies, but also raise or redeploy resources to cover the marketing, product development, capital and other expenses associated with these additional products and services.

Finally, while the changing context already has had major impacts on the Scale Academy grantees, what may be most challenging in terms of the grantees' scale-up efforts is that their full implications remain unclear. There is a great deal of uncertainty not only about the full effects of the changes that have already taken place, but also regarding how future economic trends will play out and affect microenterprise programs and their clients. For example, it is not clear to what extent the tightening of bank credit will affect loan demand and activity among the microenterprise lenders. Some microlenders – perhaps those in regions served by banks that were less involved in the sub-prime mortgage market – have not seen much of a change in bank lending activity. Other microlenders have experienced more demand, but largely from customers who they believe are not presently creditworthy – due to high levels of debt, lack of secondary sources of income for repayment, or because their businesses are in industries that are

likely to be deeply affected by the recession. Looking to the future, it also is not clear to what extent existing loan portfolios will deteriorate, and credit markets will tighten as the recession and financial crisis continue to play out. And as the Scale Academy grantees look to react to the changing context, each must face its own decision as to whether this is the right time to seek growth – because in this environment if they are unable to raise the resources required to finance a larger organizational budget, they could endanger their future capacity and sustainability.

The Progress Made

The grantees entered the Scale Academy in mid-year 2007 and will continue in the program through 2010. The table on page 4 documents their scale in terms of clients served and loans made at “baseline” (the end of FY2006), and their subsequent accomplishments in FY2007 and FY2008. As the data show, the seven grantees that have continued in the Scale Academy served 6,536 clients and made 1,555 loans in FY2008. Over the two-year period, the aggregate change was a positive 57 percent in number of clients served and a positive 15 percent in number of loans made. In addition, many of the programs serve hundreds of additional participants who receive less intensive services that might include referrals, credit counseling, a one-time workshop, or a small amount of technical assistance. In all, during FY2007 the seven grantees served a minimum of 9,071 individuals with some level of service.⁵

Five of the seven institutions achieved positive growth on both measures from 2006 to 2008. The remaining two programs experienced growth in one measure but decline in the other. Despite an overall picture of growth over the two-year period, however, several of the grantees experienced either a flattening of growth or decline in the past year, indicating that they were beginning to experience the effects of the slowing economy on their target markets. (See table on page 4.)

How should one assess these results? One way is to compare the grantees' progress with their own projections. In this respect, only two have met their original targets. Among the five that did not, the gaps were in loan production. While one reported only a 2 percent shortfall in loans made (five fewer than planned), the others reported gaps that ranged from 13 percent to 22 percent. The divergence between projections and results has been a source of disappointment for grantees. As the previous section indicated, lenders have

⁵ FIELD defines a client as an individual who received a significant level of service from the organization during the fiscal year. A participant is an individual who received any level of service from the organization. Because one grantee could not provide a participant number that removed duplicates, only their client number is included in the participant count. It is certain that the organization assisted many others but the precise number could not be calculated for this report.

Clients Served, Loans Made by Grantee

		FY2006	FY2007	Percent Change (2006-2007)	FY2008	Percent Change (2006-2008)
ACCION New Mexico	Clients	920	817	-11%	686	-25%
	Loans	92	134	46%	196	113%
ACCION USA	Clients	1031	1458	41%	1900	84%
	Loans	915	1086	19%	811	-11%
ACEnet	Clients	522	943	81%	1094	110%
Justine Petersen	Clients	315	396	26%	508	61%
	Loans	171	230	35%	295	73%
Mountain BizWorks	Clients	661	744	13%	1173	77%
	Loans	31	67	116%	67	116%
Opportunity Fund	Clients	225	349	55%	450	100%
	Loans	120	179	49%	148	23%
WESST Corp	Clients	499	595	19%	725	45%
	Loans	18	32	78%	38	111%

cited the current economic context as a principal cause of lower loan production. At least one grantee has had funders withdraw or delay funding commitments due to the current economic situation; this will likely affect the grantee's ability to achieve its scale projections. And given several examples – both in the U.S. and overseas – of microenterprise organizations that have experienced crises after explosive growth, the grantees are consciously focusing on maintaining quality in their portfolio and program services, and achieving a balance between sustainability and scale

A second way to assess the grantees' results is to compare them to those of the industry as a whole. Although trend data for the overall field is not available, there is a substantial difference between Scale Academy members and other microenterprise programs participating in MicroTest.⁶ Between 2006 and 2007, Academy grantees experienced an 8.8 percent increase in the aggregate number of clients served, while 35 non-Academy organizations experienced a 2.5 percent decline in aggregate clients. Over the same period, Academy grantees experienced a 27.8 percent increase in the aggregate number of loans disbursed while 20 non-Academy lenders experienced a 13.7 percent decline.

Median data further illustrate that non-Academy programs were much smaller and generally had flat performance compared to Academy grantees. As the graphs on page 5 indicate, in 2007 the median

number of clients served and loans made by the Academy members was about four times that of other MicroTest programs. So while certain challenges have prevented Academy members from meeting their own expectations, at least before the slowing in lending some experienced in 2008, they demonstrated a scale, and pace of growth, that few others can match.

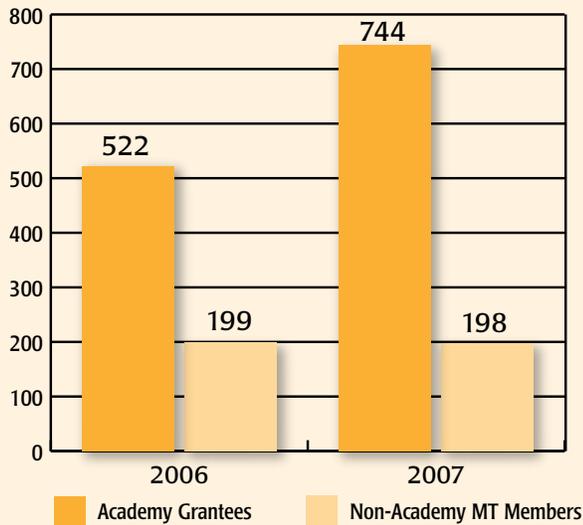
Strategies

The grantees have used both traditional and innovative strategies to reach out to more emerging entrepreneurs. These strategies are continuing to evolve in response to changes in market conditions. Grantees have adopted and discarded initiatives after testing them. In some cases, a grantee has found success with an approach while another has not, further demonstrating that markets, as well as organizational capacities and resources, vary. Grantees are pursuing increased scale by expanding their geographic coverage, as well as working more intensively within their traditional target markets. At least one is developing cultural capacities to serve new immigrant markets, while others are expanding their outreach to, and capacities to serve, new industries. As they do this, they are:

Leveraging the power of technology to deliver products and services: Grantees have learned that they can effectively deliver financing and technical assistance services over the Internet to large numbers of clients. They also have learned that there is a

⁶ MicroTest, an initiative of FIELD, is a management tool that empowers microenterprise practitioners to gauge and improve the performance of their program and the outcomes of their clients.

Median Number of Clients Served



strong market for training and technical assistance on business technology.

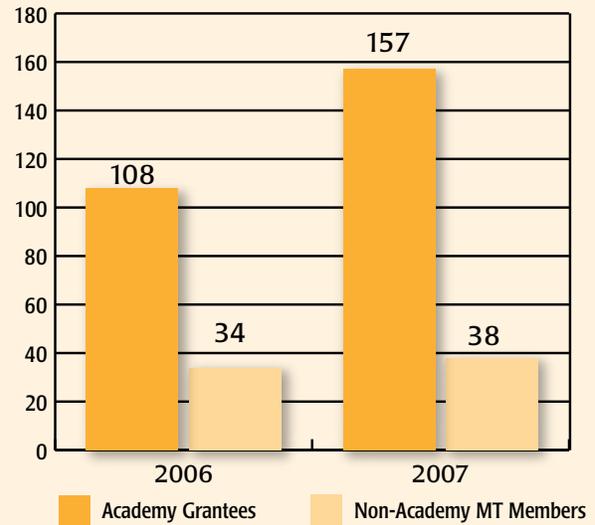
ACCION USA provides loans on-line. In 2008, it disbursed 219 loans through its Internet/remote lending branch. That on-line capacity also supports lending in its office locations. For example, its Internet services support loans in remote locations of Florida that are serviced through a Miami office. And ACCION New Mexico is contracting with ACCION Texas to use its on-line loan underwriting system as a means to increase lending efficiency.

ACenet offers its food curricula through its Web site and plans to offer an arts curriculum on-line as well. It continues to develop its Art of Ohio Web site (www.artofohio.com) as an access to markets service for artisans, and also offers basic technology training using a mobile lab, and a small grant program, to help entrepreneurs in remote areas acquire and use technology more effectively to manage their businesses.

WESST Corp has increased the technical content on its Web site, and is developing a set of new distance-learning products that will be offered through hand-held devices as well as through a new platform, WESST.TV, also under construction. However, WESST has transformed its site, wesstartisans.com, from a collective e-commerce site to an artist and artisan directory. WESST has found that new tools make it much easier for clients to obtain their own sites, and has chosen to focus its resources on client-specific e-commerce and Internet marketing work, such as training on search engine optimization. WESST also provides access to geo-mapping software to help clients further expand their markets.

Implementing sectoral strategies: Grantees have organized or customized services to assist entrepreneurs

Median Number of Loans Disbursed



in sectors where large numbers of microentrepreneurs operate. This approach enables them to develop deep expertise in specific industries, tap channels that can reach large numbers of entrepreneurs, and in some cases, create new vehicles (e.g., brands, retail operations) that can organize and support entrepreneurs' growth. At the same time, grantees are learning that finding the right channels and vehicles for some industries is more challenging than for others.

ACenet is building on its expertise and services in the food, arts and woodworking sectors to implement "regional flavor" strategies that build on these strengths and foster collaborations among the sectors, and with those in tourism and hospitality industries, to develop a more vibrant and attractive regional economy. It has created and promotes two brands, Food We Love, and Art of Ohio, to increase the visibility and market power of hundreds of producers. WESST traditionally also has supported artists and artisans with its MarketLink training and access to markets services. In its new building, it expects to offer new services for "green" or "alternative energy" enterprises as well as other creative entrepreneurs, including those working in digital media. Mountain BizWorks has established a profitable retail store, Mountain Made, which sells clients' arts, crafts, jewelry and music. Opportunity Fund found success in targeting loan products for the child care, massage therapy, flea market and trucking industries, but has found it harder to penetrate other sectors, such as construction. It has found that the sectoral approach works best when there are a few clear channels that reach substantial numbers of entrepreneurs.

Developing and/or expanding services to better serve customers in the face of the economic

downturn: Grantees are increasing their financial counseling services for credit-challenged customers and, in some instances, tailoring new loan products to help improve their credit scores. They also are offering new business counseling and coaching services aimed at helping businesses survive, and assisting clients to develop and implement new marketing strategies aimed at stabilizing and strengthening sales. For some, this has meant an extension of previous services, while for others, it has meant entering new terrain.

Justine Petersen has had long-standing strength in combining credit counseling with microlending services. ACCION New Mexico is developing a new loan product linked to a psychology-based credit-counseling process that aims to change core behaviors and habits related to money. ACCION USA has increased financial literacy training services to reach both entrepreneurs and non-entrepreneurs. Its credit builder loan is available for either group. ACEnet is expanding its regional marketing services to help clients expand sales, and Mountain BizWorks has tailored coaching services to better help clients in the economic downturn.

Expanding outreach in current and new geographies: Grantees are deepening outreach in their target markets using upgraded marketing strategies. These range from changes in branding, along with Web site changes and improved collateral materials, to developing new partnerships and distribution channels. At least two are expanding their geographic outreach to new regional markets.

Five grantees — Mountain BizWorks, ACCION New Mexico, Justine Petersen, WESST Corp and ACEnet — have substantially re-branded and re-positioned their organizations. Mountain BizWorks' efforts involved a name change (from Mountain Microenterprise Fund) accompanied by a major upgrade in its Web site and materials, and expanded public relations efforts. Justine Petersen and ACCION New Mexico have adopted new tag lines and campaigns ("Building Assets, Changing Lives" and "I Choose ACCION," respectively) aimed at increasing their visibility and connection to their target markets. Justine Petersen's re-positioning also is focused on re-introducing the organization to current stakeholders and potential supporters with a view to generating greater appreciation for its holistic, asset-building strategy and its importance to the community.

The organizations are pursuing old and new partnership strategies. ACCION New Mexico has long been known for its well-developed bank strategy that has "integrated" loan officers into its team as referral sources, brokers and closers. ACCION USA is now pursuing partnerships with credit unions and loan

brokers to increase loan referrals, and is finding loan brokers particularly responsive. And ACEnet also has strengthened collaborations with three state branding and distribution programs (Ohio Proud, Ohio Market Maker and Fresh Fork) to extend, and provide more effective, access to market services for clients. ACEnet also has developed partnerships with 75 galleries and retailers listed in the Art of Ohio directory. Its partners co-brand Art of Ohio products through in-store logo signage, Web page links and print marketing materials. Most galleries and retailers fulfill orders for buyers purchasing a product from the Art of Ohio Web site that is showcased in their stores.

Two grantees are deepening penetration into their existing markets. Justine Petersen uses neighborhood saturation strategies to uncover and connect with a large portion of the entrepreneurial community. Opportunity Fund has developed a "hubs of commerce" strategy tied to its sectoral initiative that aims to reach large concentrations of low-income, self-employed potential borrowers. The "hubs" can be defined by industry, ethnicity or geography.

Two others are expanding their geographic range. ACCION USA is developing more targeted outreach in Los Angeles, seen as a potentially strong market for its services. The organization also is merging with ACCION New York. The merged entity will bring together the strengths of a deeply place-based strategy with one that is national in scope, capitalizing on both capacities for deeper outreach. ACCION New Mexico is expanding into the neighboring states of Arizona and Colorado as it seeks to leverage its strengths to serve a broader market.

Employing social enterprise strategies to deliver services more sustainably: In addition to microlending, which is a core social enterprise for five of the grantees, approaches include access to markets strategies, business incubators, and the delivery of other business services. While some of these strategies have demonstrated greater revenue potential than others, all are inspired by the recognition that scaling up requires resources, and that organizations need to be innovative when designing services.

Strategies used by the grantees include Mountain BizWork's Mountain Made store, which had achieved profitability (and hopes to maintain at least breakeven in the current context), and ACEnet's two incubators. WESST's new building also includes incubator services, as does Justine Petersen's new space. ACEnet's brand strategies are also envisioned as a source of revenue, although the organization is still struggling to find a structure that will enable it to capture the value that the brands provide to participating entrepreneurs. ACEnet's Web mall also is designed to expand market

access for artisans with some cost recovery.

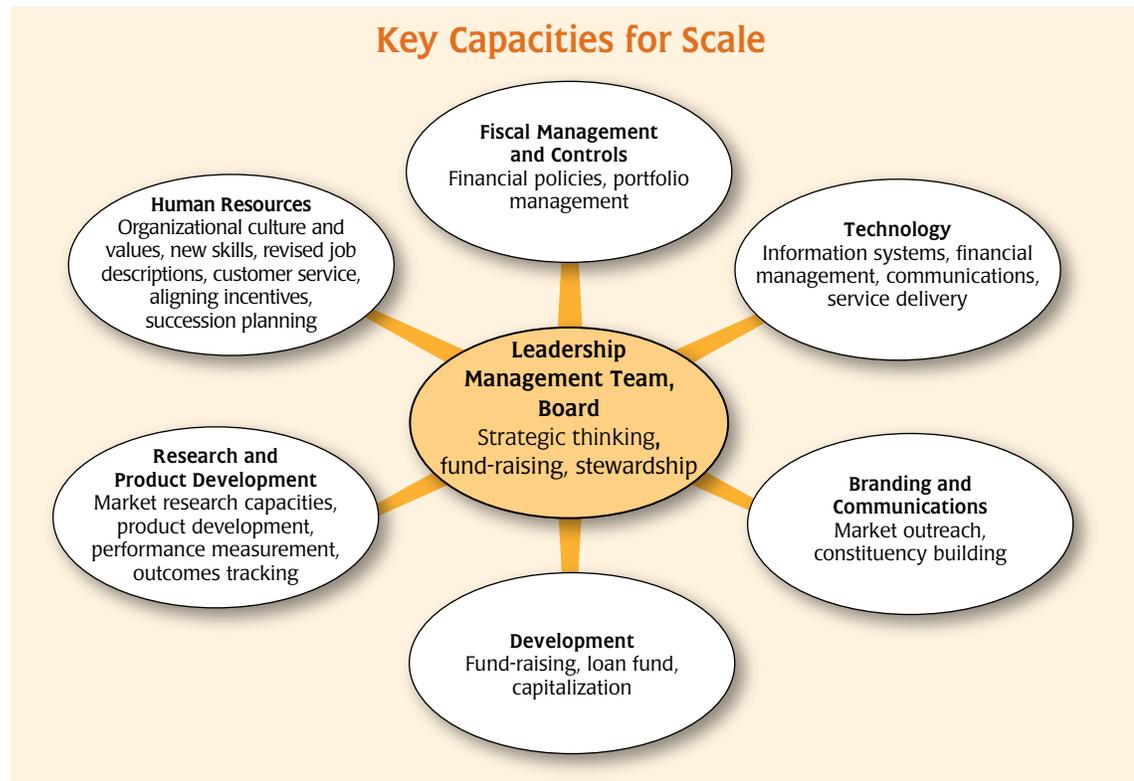
There are challenges in any of these strategies. What is noteworthy about the Scale Academy grantees is that each is pursuing multiple strategies simultaneously. While traditional models for scaling up might assume that organizations develop a product or service, test and refine it until it clearly meets market demand, and then roll it out on a major scale, these grantees have found themselves identifying, testing and extending multiple products and services simultaneously. Although the largest lenders in the group have had the greatest success in focusing on, refining and taking one or two financial products to scale, even they have found it necessary to develop additional products and services to reach new market segments.

This reality of juggling multiple product development processes makes the process more difficult, yet it appears a necessary response to the complexity of the U.S. market. In some cases, the new products and services are driven by the organization's assessment of what clients are seeking that complements its core offerings. In other instances, the new products reflect an enlarging of an organization's mission – from microenterprise lending to microfinance writ more broadly, for example. In all cases, the grantees are dealing with complexity that requires considerable organizational capacity, a willingness to take risks, and funding that recognizes the necessity of continuous product innovation in the midst of a scaling up process.

The need to use multiple strategies also creates a paradox for an organization. On the one hand, pursuing multiple strategies on a path to growth helps to maximize the potential that at least some of the strategies will succeed. At the same time, this path may create risk by diffusing resources over a series of strategies. This paradox underscores the key lesson to emerge to date from the Scale Academy: Scale must come only after an organization has built the core capacities needed to take on and manage growth.

Lessons Learned

In their successes and struggles to date, the Academy



grantees have learned a number of lessons about the process of growing to scale. These lessons speak to the work that program leaders must undertake in their efforts to achieve transformative growth. They also speak to the roles that donors, investors, and other key players in the microenterprise field can play in support of these and other organizations that are undertaking the challenging journey toward scale.

Organizational Capacity is Central

The grantees strongly agree that the most important lesson from their work is that scale must be built on a solid organizational foundation. Strategies like those listed above are obviously the direct means by which microenterprise programs reach more clients. But strategy alone will not suffice. Only an organization that has built strength in all key areas of organizational capacity – leadership, development and fund-raising, human resources, capitalization, technology, branding and communications, data collection and evaluation, and fiscal management and controls – can achieve and maintain transformational levels of growth. In fact, the Scale Academy grantee that is no longer in operation failed in part because of weaknesses in key areas of organizational capacity.

The diagram above illustrates these components and identifies the key dimensions of these capacities that support the scale-up process. Each of the grantees had built a strong core in many of these areas prior to joining the Academy. And while each organization is

pursuing specific strategies for reaching more clients, as outlined here, they are using the funding provided through the Academy to strengthen the aspects of organizational capacity that support or enable the implementation of their strategies.

For example, Justine Petersen is implementing a re-branding and communications campaign and strengthening its fund-raising capacity (at both the staff and board levels) as a means to acquire the additional capital required to support its neighborhood saturation efforts and outreach to new ethnic groups. Three other grantees – Mountain BizWorks, ACCION New Mexico, and WESST Corp – also have developed and launched new branding campaigns designed to reach new target markets and supporters. Many of the grantees also have invested in technology to upgrade communications, Web sites, databases and other systems in support of specific strategies – such as on-line lending or distance learning. And ACCION New Mexico has restructured the roles and compensation of its loan officers, and recruited new staff to fill these roles, as it has moved to use ACCION Texas' underwriting platform.

Investments in one area of organizational capacity may also strengthen capacity in other components. Improvements in technology (such as databases or computer hardware) strengthen data collection, financial management and marketing. Similarly, investments in board development are a step to successful capitalization, as board members play a key role in fund-raising. And staff in all areas of the organization must be committed to scale; if those in human resources or technology, for example, have not bought in to the organization's growth goals, they can undermine the pace of progress.

The grantees also concur that leadership is the most critical piece of organizational capacity; it is the piece that ultimately can both drive growth, and sustain the organization through the pitfalls that rapid expansion can bring. For some grantees, leadership starts with the board, with a few "A+" players who set the tone for excellence and can recruit other strong and committed talent to the organization. Others believed that a strong management team comes first; that the management team builds the board that supports growth and quality. But all would agree that, in the end, there must be strength in both areas, and they must share and drive toward a common vision if scale is to be achieved and sustained over time.

While the need to build strong capacity before attempting to scale-up may seem obvious, the field has many examples of organizations that have faltered because they did not develop the necessary organizational structures and capacities.

The experience of the Academy underscores their importance, and the need for resources that can support and sustain the deep organizational work required to support scale.

Understanding the Market

Reaching more microentrepreneurs requires that programs tap into and meet higher levels of customer demand. For this reason, many of the Scale Academy grantees are engaged in continuing and substantive market research. But the process of understanding what potential customers want, and how to best communicate with them, remains a central challenge in the process of scaling up.

The microenterprise market in the U.S. is extremely diverse, and entrepreneurs are often hard to find – working from their homes, not connected to formal business resources or networks, sometimes operating informally. Often they are not counted or easy to identify in standard sources of market data. As a result, microenterprise programs must conduct research to identify potential market niches, specific product features, and marketing messages and channels that will appeal to them. Often, these factors vary across target markets: for example, it may take very different products and marketing strategies to reach day-care providers versus landscapers. Similarly, the marketing approach for an incubator will differ from that for a loan fund or an on-line marketplace.

Some grantee research is aimed at expanding the use of existing products; other research supports the development of new products and services that will extend the organization's reach. The table on page 9 provides a summary of the market research activities conducted during the first half of the Scale Academy process.

The need for market research has been heightened by recent changes in the financial markets and the economic downturn. Programs are seeing new customers, and old customers are seeking new and different services to help them respond to changing conditions. Yet while the need for research intensifies, it remains difficult for programs to secure the funds necessary to engage in this work, as most funders are more interested in funding direct service delivery.

More Capital is Needed

The experience of the Academy grantees also demonstrates that significant additional capital is needed if programs are to achieve greater scale. The need is not just for more capital, but for capital in the right forms. This means growth or "patient" capital that can be used to support both organizational and product development.

The grantees had each achieved a strong level of

scale prior to their selection for the Scale Academy. To do so, each had to find capital to support their organizational development. Some created development capacities and practices that enabled them to secure private-sector resources (in one case, often from board members) that provided dedicated funds to support organizational development. Other grantees found ways to “self-fund” organizational development – spreading it across grants or contracts that were targeted to service delivery. For the latter group, this meant that the pace of growth was slower.

The research conducted by FIELD and AEO prior to creation of the Scale Academy indicated that flexible capital to support organizational and product development was critical if organizations were to scale-up. The Academy process was designed to at least partially fill this gap, by providing core grants to support these needs, as well as some additional funds for technical assistance. While the grantees have indicated that these funds are highly valued, the grants have been fairly modest, totaling \$75,000 to \$95,000 for the first two years.

Although the grantees have made progress over the two-year period – in many cases supplementing the Scale Academy funds with other resources – many have found their progress constrained by the lack of additional funds. Funding is needed not only for organizational and product development, but also for operational funds and loan capital to support growth in program activity. At least two grantees have had to

scale back plans for expansion in their lending efforts due to insufficient loan capital and/or operating support; others need both investment capital and operating funds to expand their coaching, incubation and access to market services.

From a funding perspective, it also is worth noting that several of the Academy grantees are building infrastructure that could support expansion of services across the microenterprise field, not simply within their organization. ACCION USA’s on-line lending; WESST Corp’s WESST.TV distance-learning platform; Mountain BizWorks’ coaching methodology; ACEnet’s on-line food sector and art sector curricula – each of these could be platforms or tools used by large numbers of programs. However, realizing this potential will require a significant expansion in financing.

The Role of Real Estate

In “Linking Mission and Money,” Clara Miller of the NonProfit Finance Fund sounds a warning regarding the acquisition of buildings by nonprofits. She writes: “Buildings often represent the most significant capital investment undertaken by nonprofit organizations. They represent an asset allocation decision with profound long-term implications for operations and capacity, and they are, in addition, a highly illiquid investment. All other things being equal, a balance sheet heavy in fixed assets is necessarily a higher risk balance sheet.”⁷

Her warnings regarding the implications of building ownership are backed by evidence of institutions that

Grantee	Market Research Activities
Opportunity Fund	<ul style="list-style-type: none"> ▶ Researched targeted sectors to determine potential interest in, and marketing channels for, loan products. ▶ Researched “hubs of commerce” to identify large concentrations of low-income, self-employed borrowers. ▶ Ethnographic research to determine the characteristics of its “ideal” borrower.
WESST Corp	<ul style="list-style-type: none"> ▶ Developing market research tools to evaluate new distance-learning products.
ACCION USA	<ul style="list-style-type: none"> ▶ Researched types of potential partner organizations that could serve as marketing channels or delivery agents for AUSA loans. ▶ Conducted focus groups on financial literacy programs.
Justine Petersen	<ul style="list-style-type: none"> ▶ Conducted research on immigrant/refugee communities, to determine potential loan demand and identify other organizations serving that market.
ACEnet	<ul style="list-style-type: none"> ▶ Continued marketing and market research for Art of Ohio. ▶ Hired part-time marketing coordinator. ▶ Conducting additional research on market for Nelsonville incubator.

⁷ Clara Miller, “Linking Mission and Money” (New York: NonProfit Finance Fund, 2001), 12; available from http://www.nonprofitfinancefund.org/docs/Linking_MissionWebVersion.pdf; Internet.

have struggled under the weight of these acquisitions, which in some instances have contributed to their failure.

Despite the inherent challenges, five of the original eight Academy grantees have acquired real estate because they see these structures as integrally related to their mission. ACEnet and WESST operate business incubators. Justine Petersen's new building, poised at the edge of a transitioning neighborhood, is central to its outreach to new target markets. ACCION New Mexico also has purchased a site that offers easier access for its target markets. Both organizations point to the visibility of these headquarters as key to their branding strategy, introducing them in new ways to all their stakeholders – funders, clients, partners, community members and community leadership. ACCION New Mexico also projects lower operating costs than those incurred in its current rental space, and expects that naming opportunities will provide a new means for supporters to invest in the organization. Mountain BizWorks has purchased an office condominium; management reports that the new and improved space has transformed both staff and client attitudes, increasing pride and ownership in the organization.

At the same time, grantees acknowledge the challenges of owning real estate. MicroBusiness Development's purchase of a building in late 2007 complicated its financial status and likely contributed to its closure in 2008. ACEnet has been challenged to achieve full occupancy of its Nelsonville facility, and senior management notes that successful business incubation requires real estate expertise that has been hard-won in their organization, and brings with it new staffing demands. Large mortgages are heavy liabilities and require careful management. Grantees share the following advice with organizations considering this path:

- **Think carefully and creatively about financing and the amount of liability that can be managed.** WESST's innovative partnership with the city of Albuquerque has resulted in an arrangement in which the city owns the building (a \$10 million project). WESST leases it for a minimal annual fee, with the option to buy at a later date. Mountain BizWorks raised donations for its condominium from supporters who believed the asset could strengthen the organization's balance sheet, allowing it to attract more lending capital.
- **Surround yourself with expertise.** Justine Petersen has real estate expertise; in addition, its building project was supported by a core group of the board and key advisors with strong experience in architectural design and real estate development. ACCION New Mexico has organized a committee of builders, developers and attorneys to help plan and later construct its new headquarters.

This group wanted the organization to continue focusing on its core mission while it carried a considerable portion of this project's burden.

- **Understand that being a landlord can be very challenging.** ACEnet notes the need to be very clear about the types of tenants the organization can support, and the demands that being a landlord will impose on the organization. Given ACCION New Mexico's lack of expertise in building management, its committee has advised the organization against developing a building that requires tenants. Having tenants raises the level of complexity in building ownership, and those that take it on should do so with an understanding of the challenges involved.

Sustainability and Scale

While large-scale international microfinance organizations have used scale to achieve self-sufficiency and even profitability – marrying economies of scale, high volume and high interest rates into a winning formula – U.S. microenterprise programs have not found this to be a workable strategy. Although sustainability and scale are inextricably linked, the first has not followed from the second. Rather, organizations first must assure and safeguard their sustainability, and then work hard to maintain it every step of the way. In fact, Academy grantees have emphasized that their first responsibility is ensuring sound financial management and the organization's long-term health, and that achieving scale is a secondary goal.

As organizations take steps to expand outreach to new markets, and develop and offer new products and services, they must think creatively about how they will support the cost of growth. Grantees have implemented a range of product and service fees, and used social enterprise strategies to cover all or part of the costs of new products and services. In fact, four of the grantees engage in a substantial number of cost-recovery strategies, looking for the opportunity to generate revenues across a broad array of program services.

Through these strategies, in 2007, the median cost recovery rate for all expenses was 35 percent (the mean was 31 percent). Cost recovery ranged from 8 to 53 percent across the group. While higher rates were generally associated with the microlenders in the group, one training and technical assistance organization also reported substantial cost recovery – 44 percent. Grantee performance also outpaced other MicroTest members in FY2007: the median cost recovery for the group was 24 points higher than that of 54 others that provided data: 31 percent compared to 7 percent.



Sample revenue generating strategies used by Scale Academy Grantees

ACEnet:

- Art of Ohio e-commerce: fees
- Incubators
 - ▶ Food manufacturing center
 - ▶ Nelsonville
 - ▶ Athens
- Food We Love specialty food brand: brokering fees
- Consulting to other entities
- Curricula/replication manuals

Mountain BizWorks:

- Mountain Made retail store sales
- Loan fund: interest and fees
- Coaching fees
- Curriculum sales
- Membership program: annual fees
- Consulting to other organizations

Justine Petersen:

- Counseling fees
- Mortgage brokerage fees
- “Home to home” mortgage loan fees
- Rental/incubation
- Just Biz —business services store
- Loan fund: interest and fees
- Foreclosure purchase

WESST:

- Training fees
- Consulting fees
- Loan fund: interest and fees
- Investment income
- WESST artisans —e-commerce
- Incubator: rent and technical assistance fees
- Distance-learning fees
- Consulting to other organizations

Data available on five of the seven grantees show that progress toward total cost recovery is not always a straight line. One grantee had a higher rate of cost recovery in 2005 than in 2007, and another’s progress over that period was fairly flat. Still, the other three demonstrated either steady or substantial growth. Mountain BizWorks increased the percentage of its total costs covered by earned revenue from 7 percent in 2005 to 26 percent in 2007. This increase has resulted from the growing viability of its retail store and an increase in microlending. ACCION USA’s cost recovery increased from 37 percent in 2005 to 53 percent in 2007 as its lending volume increased.

The grantees are mature organizations that have been in existence between seven and 24 years. Their experience suggests that even in the presence of significant cost recovery, a robust development/fund-raising function is essential. Several grantees have worked, or are working, intentionally to strengthen this function. Justine Petersen, for example, has used grant funds to develop its board’s development capacity, and to invest in new branding and communications strategies. ACEnet has set a strong fund-raising goal for its board and supporters, and is developing a strategy to achieve it. And ACCION New Mexico has a strong internal fund-raising team supported by an active development committee of the board. They, and the other grantees, emphasize that if an organization

has not achieved a core level of sustainability — which includes increasing cost recovery complemented by solid donor support — responding to the call to scale can be like yielding to the call of the siren — leading an institution to crash upon the rocks.

Scale and the Field

The Academy grantees are making good progress on scaling up their organizations to serve more clients. They are doing so despite volatile and challenging economic conditions, and the need to move in multiple directions at once, working to build organizational capacity to develop and roll out new products and services. The strategies they are testing and lessons they are learning are forging a path that others in the industry can follow as they, too, seek to achieve greater scale.

The challenges the grantees face in scaling up are amplified because they are dealing with issues that might be better addressed on an industry level. Grantees have identified these areas that could both support the entire field, and increase the efficiency and effectiveness of their own efforts:

- ▶ **Product development.** The cost of product development is high. Greater efficiency could be achieved if there were mechanisms for developing and investing in products that could be delivered or

marketed by many microenterprise organizations.

▶ **Funding.** Achieving scale requires substantial investment. Growth capital is needed to build institutional capacity for scale across the field. As that capacity is built, the field also will need new investment vehicles designed to attract more investors in the field.

▶ **Public awareness.** A well-designed and implemented industry-wide branding and awareness campaign could bolster the efforts of individual organizations.

▶ **Market research.** This has been an ongoing and expensive need of individual programs. Sharing market knowledge on sectors and perhaps on specific products and services across regions potentially could speed the process of scale by reducing the amount that individual programs must invest in research.

▶ **Infrastructure development.** New technologies, systems and platforms could help develop the capacity and efficiency of many organizations.

Examples include ACCION Texas' back office platform and WESST's emerging media Web site could become another.

The industry's national and state-level support organizations have taken on some of this work, particularly in terms of public awareness and funding. As the work of ACCION Texas and WESST demonstrates, practitioner organizations also are developing needed products, tools and infrastructure that could benefit the entire field. As noted above, widespread use of these innovations will require a dedicated effort and significant financing. Going forward, this group of leading programs, as well as other practitioners, could serve as focal points for collaborative efforts on other tools and products that would benefit their own institutions and others in the field. However this work is accomplished, the critical point is that to achieve greater scale, work must take place at the industry as well as the practitioner level.



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For more resources on Scale, published by FIELD and others, please see the resource list at: <http://fieldus.org/Projects/direction3.html>

Additional publications on Scale Academy grantees include:

FIELD forum Issue 19: Blazing a Trail to Sustainability through Social Enterprise: A Case Example (2008) on Mountain BizWorks, <http://fieldus.org/Publications/FieldForum19.pdf>

FIELD forum Issue 20: Capital Structure: Getting it Right to Increase Sustainability (2008) on Justine Petersen, <http://fieldus.org/Publications/FieldForum20.pdf>

FIELD forum Issue 21: Building Sustainability by Increasing Earned Revenue (2008) on ACEnet (the Appalachian Center for Economic Networks), <http://fieldus.org/Publications/FieldForum21.pdf>

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