CASE SUMMARY: 7-11 VCOM

Description of Organization

- 7-Eleven offers a multitude of products through its convenience stores. One of these, the V-com product, enables consumers to complete a number of financial transactions and purchase financial products through technology-powered kiosks.
- Fifty-five percent of the stores are franchise owned and another 45 percent are owned by the company.[1]
- There are approximately 6,000 7-Eleven locations in North America.
- Most stores are located in urban areas because it is important that they are near the distribution centers (known as CDCs).

Historic Context and Driver for Growth/Scale

- The company started in the convenience store industry 75 years ago when the founders sold ice and other goods, in the Dallas area.
- 7-Eleven found its niche in the convenience store market selling food on Sundays when other stores were not open.
- In the mid-1960s, 7-Elevens began to stay open 24 hours a day and expansion accelerated in the 1980s.
- 7-Eleven stores were the first retailers to have off-premises ATMs.
- In the early to mid 1990s, 7-Eleven began to offer money orders and tested various strategies to provide financial services to their customers. These services have been aggregated in the Vcom technology kiosks.

Growth/Scale-Up of the Organization over Time

- 7-Eleven's systems (which include marketing, store deployment and structure, and experienced store management) provide the marketing, location and labor to make the services accessible to a population with limited relationships with banks.
- Funding is provided through 7-Eleven's resources as well as negotiated financing from banks.
- Expenses are offset by placement fees paid by Vcom financial technology partners in exchange for exclusivity. These partners provide specialized expertise in the financial services and financial delivery systems.
- The partners include: Western Union (which provides money transmission including orders), Certegy (check cashing), Cyphermint (e-commerce), Verizon (telecommunications/phone cards), American Express (ATM), and Microsoft and NCR (information technology infrastructure).
- From 7-Eleven's perspective, the key development issue in relation to the infrastructure is the ergonomics of the machines.
- 7-Eleven is in the midst of rolling out the Vcom product. Having been introduced to nearly 100 stores during the market trial stage, it is now in 350 stores, and 7-Eleven intends to expand the product to 3500 new stores over the next few years.

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[1] Franchisees retain 48 percent of the profits. Capital required to acquire a franchise is minimal. Whether the store is company or franchise depends on the region – some areas have tended to be more franchise and others more company owned stores.

- Once fully rolled out, 7-Eleven estimates that the total capitalization will be $200 million.

Lessons for Profitability, Sustainability and Successful Scale-Up

- The Vcom product is convenient to the target customer – they already go to 7-Eleven.
- 7-Eleven's partners are responsible for the payment system and hardware of the Vcom kiosks. Originally, 7-Eleven looked to bank partners for instant credibility in financial services but later moved from that approach to the current set of partners.
- 7-Eleven was willing – and able -- to make a significant investment to grow the business.
- The Vcom product and market trials phase involved testing not only the customer acceptance and potential profitability of the model, but also the efficiency of the service being offered. Through the testing period, the product was tested to ensure that the systems worked smoothly and that the kiosks were user friendly.
- The consumer financial service model works only when a number of products can be provided in one place. A single product is not attractive to the busy consumer. Combining financial services with nonfinancial services adds to the convenience benefit to the consumer.

CASE SUMMARY: ACCION INTERNATIONAL AND ACCION USA

Description of the Organization

- ACCION International's mission is to give people the tools they need to work their way out of poverty.
- ACCION provides microloans and business training to impoverished people who want to start their own businesses. These businesses can help people earn enough to afford basics like running water, better food and schooling for their children.
- ACCION International is separated into a network of subsidiary organizations that are region specific. As of 2003, these programs operate in 15 countries in Latin America and the Caribbean, in five countries in sub-Saharan Africa and in more than 30 U.S. cities and towns.
- One of these programs is ACCION USA, the largest microlending network in the United States.
- At the end of 2002, the ACCION USA Network had provided over $60 million in small business loans to more than 7,900 low-income entrepreneurs.

Historic Context and Drivers for Growth/Scale

- ACCION International was founded in 1961 to address the desperate poverty in Latin American cities.
- ACCION found that the major cause of urban poverty in Latin America was a lack of economic opportunity. There were few jobs, and those that were available did not pay a livable wage.
- Unable to find work, many started their own enterprises by borrowing money for supplies from local loan sharks at rates as high as 10 percent a day. Most of their profits went to interest payments.
- In 1973 in Recife, Brazil, ACCION staff coined the term "microenterprise" and began making small loans with low interest rates. These were very possibly the first loans in the field of microcredit.

Growth/Scale-Up of the Organization

- Based on the success in Recife, over the next 10 years, ACCION started microlending programs in 14 Latin America countries.
- In the last decade alone, ACCION affiliated programs have made $4.6 billion in microloans to 2.7 million people, with a repayment rate of over 97 percent.
- In 1991, concerned about growing income inequality and unemployment in the United States, ACCION started a program in Brooklyn, NY.
- Over the next five years, ACCION worked to adapt its lending model to the very different social and economic climates within the United States, creating each of the other ACCION USA subsidiaries.
- These programs were originally setup as individual 50l c 3 organizations with their own boards and local focuses. In an effort to streamline the work being done by these programs, ACCION USA launched a reengineering or retooling initiative to centralize loan processing, standardize underwriting, consolidate corporate functions (like fundraising, marketing, payroll and HR), explore Internet-based lending and call

centers, develop a credit grid (a first step toward credit scoring), and open new lending offices.

Lessons for Profitability, Sustainability and Successful Scale-Up

- ACCION's emphasis on commercial viability and institutional growth — known as the financial systems approach — has helped their affiliates and partner microfinance institutions reach scale and financial self-sufficiency.
- ACCION provides extensive technical assistance and infrastructure support for network affiliates to improve operations and efficiency. It also provides loan guarantees and investment funds to help organizations in the network access commercial capital.
- Where/when appropriate, ACCION has assisted or facilitated the transition of an affiliate from NGO to commercial bank status.
- ACCION USA is one of the few community development finance organizations in the U.S. that has engaged in a deliberate and comprehensive initiative to increase scale and improve efficiency. Much of the success ACCION USA has had with this expansion initiative can be credited to its network structure.
- ACCION USA also engaged a market research firm to go beyond the typical SBA and HUD data in order generate a better estimate of demand for microloan products in their markets.

CASE SUMMARY: ACE CASH EXPRESS, INC.

Description of the Organization

- ACE Cash Express, Inc. (ACE) is the largest check cashing operation in the United States, with slightly over 1,000 stores in 36 states plus the District of Columbia at the end of fiscal year 2002 (June 30, 2002).
- Eighty percent of ACE stores are directly owned. The other 20 percent are franchises that resulted from an acquisition of the Cash Express operation in 1996.
- The organization has a board of directors; senior, regional and district level management; and store staffing. It is divided into districts and regions under regional vice presidents.
- Over time, as the company expanded into a national organization, it utilized a hub and spoke strategy, maintaining a central office from which it oversaw regional development throughout the country.

Historic Context and Drivers for Growth/Scale

- ACE Cash Express, Inc. views itself as a transaction-based retail business offering diverse services to lower-income customers (many of whom are young males making salaries in the upper $20 thousands to the mid $30 thousands) who value convenience and a comfortable environment. Throughout their growth into a national operation, as a publicly held company, ACE focused on this market.
- ACE is the largest company in the United States offering alternative, non-bank financial services. It believes it has a unique understanding of the underbanked marketplace.

Growth / Scale-Up of the Organization over time

- The firm started in 1968 in Denver when some entrepreneurs saw an opportunity to serve customers who were not being served by the banking industry.
- Then, the company was called Money Mart and its business was cashing checks.
- ACE went public through an IPO in 1992.
- ACE had 200 stores in the early 1990s. It has since grown to have more than 1000 stores.
- ACE has built its business through acquisition, internal growth, and by understanding itself as a profit-focused retail business. To this end, ACE has added new products over the years to offer its customers a broad set of services.
- ACE currently (2003) has check-cashing machines located at 200 H&R Block outlets.
- Through an agreement with Travelers Express, Inc., and its affiliate, Money Express, ACE offers bill payment for utility, telephone and other third-party sources as well as funds transfer services.
- ACE is also able to offer its customers debit and ATM cards though a relationship with MasterCard.
- ACE's annual capital expenditures have averaged nearly $10 million over the last five years.

Lessons for Profitability, Sustainability and Successful Scale-Up

- ACE Cash Express, Inc. meets the needs of the growing number of unbanked and underbanked people in the United States.
- ACE customers often either have no financial service alternative or find the store culture and convenience offered at ACE stores preferable to bank relationships. ACE averages 2 million transactions per month and has maintained a 75 percent customer retention rate.
- ACE has practiced a tactic of buying out other businesses that offer financial services to the lower income—as was done in the case of ACE management's buyout of ACE from Associates.
- ACE has developed a broad set of services by building a customized infrastructure internally as well as by initiating partnerships with a variety of other companies.
- ACE frequently surveys customers and offers training to improve the skill levels of its staff based on feedback from these surveys.

CASE SUMMARY: ALLIED CAPITAL AND BLX

Description of the Organization

- Allied Capital Corporation (Allied Capital) is organized as a Business Development Company; through its parent company, Allied Capital runs several companies that provide different but complementary financing for small and new/emerging businesses.
- As a publicly traded Business Development Company, Allied Capital is regulated by both the SEC and SBA and is required to pay out 90 percent of its income as dividends.
- Allied Capital offers a range of services including: equity capital, debentures, mortgage financing and senior credit to smaller companies.
- Because of the higher risk business investments Allied Capital makes, especially the equity venture capital and mezzanine financings, Allied Capital is actively involved in the management of its portfolio companies. This active involvement can range from sitting on the board of directors for portfolio companies to replacing management at some companies.
- Business Loan Express (BLX), a portfolio company controlled by Allied Capital and representing a merger with Allied's small business senior lending group, reaches into underserved small business lending markets.

Historic Context and Drivers for Growth/Scale

- Allied Capital was organized under the Investment Company Act of 1940 to finance and offer loans to businesses that banks tend to avoid.
- Allied has created a range of innovative structures and financial products to provide financial services to businesses while, at the same time, maintaining strict underwriting standards.
- Being a nonbank, BLX is able to offer assistance to borrowers who may be uncomfortable with the banking system and that is therefore traditionally unbanked. Roughly half of BLX's loans are made to minorities or women.
- Allied Capital focuses on providing capital to finance long term business growth.
- Small businesses have traditionally had limited access to subordinated debt and equity products. Allied Capital is one of the most successful in capitalizing on this market opportunity.

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Growth/Scale-Up of the Organization over Time

- Allied Capital was founded in 1958 as an SBIC and has added complementary business units over the years to meet the needs of the market.
- Allied has been raising capital in public markets since 1962. It grew 5 public companies to facilitate this including mezzanine companies, a small business lending company and a REIT. These companies were developed to manage private small business funds. The company's focus has always been in the private equity market.
- In the 1990s Allied Capital's CEO at the time, Bill Walton, consolidated the various complementary business units into one.
- As of mid-2003, the market capitalization of the company exceeded $2.5 billion.

Lessons for Profitability, Sustainability and Successful Scale-Up

- By following a disciplined underwriting approach, Allied Capital has been profitable for 40 years and has been able to serve small businesses generally perceived as "risky investments." Virtually all investments are approved by a central credit committee.
- For Allied, growth as a business is secondary to return of principal and profitability.
- Allied Capital has a conservative balance sheet, which includes about a 60 percent equity capital, 30 percent longer term debt and 10 percent short term debt. Its capitalization has historically exceeded the BDC requirement (1 to 1).
- Allied Capital's strategy is to add experienced management to companies they invest in. Allied also provides management assistance in technology, marketing and human resources as well as management to help streamline operations.
- Throughout it's history Allied Capital has been willing to bring in new people with relevant skills for change and/or growth. This rule has included executive management.
- Allied is characterized as a company by its ability to respond to changes in market forces and niche financing opportunities.

CASE SUMMARY: BANKNORTH GROUP, INC.

Description of the Organization

- The Banknorth Group, Inc. is a bank holding company with financial service subsidiaries in each New England state as well as New York.
- The Banknorth Group is composed of a diverse conglomeration of financial companies that include acquired commercial banks, savings banks, insurance agencies and broker/dealers.
- The diversity of its incorporated financial firms enables Banknorth to offer every financial product available to the mainstream population.
- Banknorth has developed a number of products that are new to banking and especially to the traditional savings bank.

Historic Context and Driver for Growth/Scale

- Banknorth started as a savings bank in the nineteenth century and until 2000 was known as Peoples Heritage Savings Bank.
- Originally it had a narrow focus on real estate lending but has expanded during the past decade by acquiring financial service subsidiaries and developing new financial products.
- In order to fulfill their strategy of growing to scale, the bank converted its charter from a limited savings bank to a broader commercial bank.
- As was the case with many New England Savings Banks in the 1980s and 1990s, Peoples Heritage had serious loan quality problems and the bank came close to becoming insolvent. The company began its strategy of growing to scale after its balance sheets were stabilized.

Growth/Scale–Up of the Organization over Time

- Banknorth focused on incorporating acquired small financial firms and developing new products to enable its scale-up.
- The capital for growth came from internal earnings, issuance of stock, and the use of their stock as the "currency" to acquire other financial service companies though stock swaps.
- Among the financial firms that Banknorth has incorporated into its group are the largest insurance agency in Maine (a holding company with advisory boards in each state that the bank operates), a bank division in each state, and specialized insurance and investment management companies.
- Going from a $1 billion to $20 billion bank in ten years required an integration of management, transaction processing, personnel and lending systems across formerly independent organizations.
- Last year, Banknorth integrated all of its acquired entities under a single bank charter.
- The bank's capital base has grown from $50 million to $1.7 billion during the period of scaling up.

Lesson for Profitability, Sustainability and Successful Scale-Up

- The Bank's ultimate measure of success is its financial performance. Banknorth stock has increased 50 percent in value over the past two years.

- The bank has continually brought in skills and integrated new management into the Banknorth community and philosophy.
- Acquisitions were not only a means of buying assets but also acquiring management talent. For instance, the insurance agencies are still run by the same team that had managed them when they were acquired and a bank regulator was brought in to manage credit risk.
- Banknorth presents an example of how a community bank can maintain a community focus despite experiencing phenomenal asset growth and expansion of the scope and breadth of its financial products, geographic reach, and number of customers.
- The growth and mission focus was achieved as a result of a carefully followed strategic plan, a strong management, and recognition of the opportunities that consolidation of the financial services industry presented.

CASE SUMMARY: CENTER FOR COMMUNITY SELF-HELP, NONCONFORMING MORTGAGE PROGRAM

Description of the Organization

- The Center for Community Self-Help (Self-Help) was founded in 1980 to increase ownership opportunities and build the wealth of North Carolina's disadvantaged populations.
- Self-Help created two financing affiliates: the Self-Help Credit Union, a state chartered, federally insured credit union; and the Self-Help Ventures Fund, a nonprofit community development loan fund.
- Self-Help is an example of a community development financial institution that has continued to innovate in the type of financial services it offers, and has expanded the range of financing options available to low-income populations.
- In addition, it acts as a laboratory for economic development approaches—experimenting to find out what works and then advocating for change in both the public and private sectors.
- Self-Help provides a wide variety of home loan programs, but specializes in serving customers who cannot obtain financing with a bank or conventional lender because of bad credit or other problems.

Historic Context and Driver for Growth/Scale

- Self-Help realized that it could not make a dent in the demand for homeownership or the plight of low-wealth families by simply operating with its own resources to finance home ownership. (Home equity is often the key asset through which individuals and families accumulate wealth.)
- In order to expand their operations beyond the limits of their own financing capacity, Self-Help worked with conventional financial institutions to help them create portfolios of home loans to low-wealth black families in North Carolina. (Many of these loans have loan-to-value ratios in excess of 97 percent.)

Growth/Scale-Up of the Organization over Time

- A grant from HUD's Office of Policy Development and Research and a loan from the MacArthur Foundation allowed Self-Help to analyze data on carefully underwritten, nonconforming loans. This analysis provided the empirical basis for expanding lending to low-wealth, particularly minority, households nationwide.
- On the basis of this study, Self-Help modeled a prototypical portfolio of high loan-to-value (HLTV) mortgages and analyzed relevant characteristics—such as default and delinquency rates, and prepayment rates—then began to prepare the program for a national roll-out.
- The goal of the roll-out was to establish a national program for financing high loan-to-value (HLTV) mortgages for poor families. The roll-out included a number of banks around the country and focused on changing lending policy.
- To support the roll-out effort, the Ford Foundation provided $50 million in subsidy and Fannie Mae agreed to purchase $2 billion of HLTV single family mortgages that banks across the country disbursed to low-wealth families.
- In addition, Ford provided $50 million in initial credit enhancement and $1.8 million for operating expenses.

Lessons for Profitability, Sustainability and Successful Scale-Up

- In 1994 Self-Help purchased $20 million of Community Reinvestment Act (CRA) home loans from Wachovia Bank.
- In the Wachovia portfolio, 30 percent of borrowers are African-American; almost 50 percent are female-headed households; 60 percent are rural and most impressively, average borrower income is 54 percent of the county median income.
- The initiative is governed by an unprecedented financial partnership between the Ford Foundation, Self-Help and Fannie Mae to benefit homebuyers nationwide.

Self-Help was able to utilize a unique combination of resources to successfully roll-out its home loan product nationwide. By using foundation funding and by devising a product, which could make use of existing financial institutions, Self-Help was able to successfully offer its high loan-to-value (HLTV) mortgages to consumers across the nation.

CASE SUMMARY: DELL COMPUTERS

Description of the Organization

- Dell was incorporated in 1984 by Michael Dell with the belief that by selling computer systems directly to customers, Dell could best understand the customer's needs and efficiently provide the most effective computing solutions to meet those needs. Dell calls this approach the *direct model*.
- Throughout expansion phases, Dell established headquarters in various regions to maintain the direct model philosophy. Austin, Texas, is the regional headquarters for the United States, Canada and Latin America.
- Dell has manufacturing sites in six locations, also strategically placed when expansion decisions were finalized.
- Dell is committed to the direct model which focuses on the customer and is guided by five tenets:

  (1) *Most Efficient Path to the Customer*: this means that the most efficient path to a customer is through a direct relationship between Dell and the customer.

  (2) *Single Point of Accountability*: Dell remains the single point of contact and accountability for their customers in the event of problems and/or questions. Dell houses all resources and support for their customers.

  (3) *Build-to-Order:* Dell employs an inventory system that allows them to purchase only necessary items. In addition to enabling Dell to configure systems that directly meet the needs and requests of their customers, this inventory system allows them to cut overhead costs.

  (4) *Low-Cost Leader*: Dell is able to keep their costs down because of a highly efficient supply chain and manufacturing organization.

  (5) *Standards-Based Technology*: Dell assumes the role of researcher for their customers. Rather than focusing their efforts on developing new technologies, Dell uses the best of what already exists.

Historic Context and Driver for Growth/Scale

- While most computer providers were selling to large corporations, Dell went after small to medium sized businesses. There were large numbers of these businesses that were often ignored as consumers by other computer providers.
- At a time when most computer providers were introducing new technologies and services on a regular basis, Dell was trying to help their customers understand software and encouraging them to purchase only needed and relevant products.

Growth/Scale-Up of the Organization over Time

- Dell began in 1983 as a university dorm-room based operation, rebuilding computers, with $1,000 capitalization.
- Dell developed a process to guide their expansion into new markets, country by country. So, although growth was on a per country basis, the process was always the same.
- Initially, Dell made use of distributors even though a third party precluded them from using the direct model. These distributors were used as Dell expanded into new

countries until the country in question was determined to be "ready" for the direct model. This readiness depended on several factors:

1. The size of the current and potential market
2. The availability of resources (i.e., sales force and management at a local level)
3. Local acceptance of the direct model
4. Suppliers ability to meet quick turn around requests
5. Final arrangements with carriers to ensure timely delivery of products
6. Understanding and containment of operating costs

- In 1996 Dell offered e-purchasing of computers via the Web. The direct model was adapted to the Internet and by 1999 Dell had Web pages for 44 countries in 21 different languages.
- Using the Web, Dell offered their customers 24 hour customer service on-line as well as a second medium through which purchases could be made.
- Dell also has kiosks, most of which are in Japan, with product samples from which customers can experience Dell.

Lessons for Profitability, Sustainability and Successful Scale-Up

- As Dell states, they do not adapt their products to the culture of an area but customize according to the needs of each individual.
- With direct model production, there is much less research needed into the desires and needs of the customer. Customers customize their purchases according to their needs.
- Instead of going after corporations with more resources and potentially more needs, Dell went after quantity in number of potential customers.
- This strategy allowed them to enter the market but prohibited huge growth.
- The rate and speed at which they grew would be very difficult to replicate because they capitalized on a market need of customers who were willing to invest in products that would automate and improve their businesses.

CASE SUMMARY: THE REINVESTMENT FUND

Description of the Organization

- As a regional community development financial institution, The Reinvestment Fund's mission is dedication to rebuilding wealth and opportunity for low-income communities.
- The Reinvestment Fund (TRF) is organized as a not-for-profit community development financial institution divided along the following operational lines:
  1. Community Resources Group – the oldest and largest of TRF's divisions. This branch is dedicated to housing finance, facilities finance and making loans to nonprofit organizations. It includes a bank consortium that makes large scale construction loans.
  2. Economic Opportunity Group – offers small business lending and workforce development.
  3. Energy Conservation Group – which makes energy loans.
  4. Ventures, Inc. – made up of two community development venture capital or private equity funds.
  5. Public Policy Group – which collects data and analyzes the community development impact of the organization's work.
  6. A capital development group – focused on organizational fundraising and investor relations.

Historic Context and Driver for Growth/Scale

- TRF was founded as the Delaware Valley Loan Community Reinvestment Fund in 1985 by a group of community development activists, financial experts and religious leaders to finance community development with a focus on housing.
- They initially focused on financing affordable housing as a key strategy of community revitalization.

Growth/Scale-Up of the Organization over Time

- TRF has expanded from its initial focus on housing in the in Delaware Valley in three ways:

  1. Geographic reach was expanded in phases to a 12-county region that includes parts of Pennsylvania, Delaware and New Jersey;

  2. TRF expanded its funding capacities to include business, facility and energy lending.

  3. New types of economic development support were introduced, including venture capital, policy research, and advocacy and labor market improvements.

- Initially, as loan products expanded, TRF used a single set of underwriting and reserve policies and standards. But as TRF continued to expand its products, it found that unique underwriting and reserve standards were needed for each loan type. Unique underwriting standards were established for the energy and business loan pools as well as for commercial and residential lending.

- As TRF expanded geographically, it developed centralized loan processing and an internal network that provides staff with access to borrowers and investors who can help with both marketing and loan service.
- Depending on the size of a loan, it is approved at either the staff level or explicitly through a central credit committee.
- Both organizational and servicing functions are supported by financial databases that are tied into the internal accounting and financial reporting systems.

Lessons for Profitability, Sustainability and Scale-Up

- Initially, TRF focused on mortgage and construction products. As it built expertise, it went into other asset-based lending; for instance, facility and business lending.
- On a project-by-project basis, TRF partners with government, nonprofits and for-profit entities.
- Each new initiative must have an identified funding source.
- TRF reinvests in functional areas of policy-impact analysis, labor market development, and marketing/investor relations.
- TRF's experiences with scale-up offers several lessons:
    - High importance should be placed on developing written policies – In this case, for lending, investing, and developing specific policies for each type of financial product.
    - TRF also learned the importance of resource management. As the commercial lending business grew, it was able to expend less time on business planning assistance and very small transactions.
    - The loan servicing process needs to be made as efficient as possible. For TRF, this meant the establishment of a centralized loan administration, which freed-up loan officers' time for origination and marketing.

CASE SUMMARY: UNIFIED WESTERN GROCERS

Description of the Organization

- Unified Western Grocers serves independent grocers in the western United States and internationally.
- It was created out of the merger between two West Coast independent grocer cooperatives, Certified Grocers of California and United Grocers based in Oregon.
- Both organizations had similar and complementary histories since their establishment in the early 20th century. Today, Unified Western Grocers reaches about 3,700 mostly independent grocers, through their membership of over 600 patron-member organizations.
- Unified Western Grocers is a grocery cooperative in which independent and smaller supermarkets are the owners, and invest in the corporation through purchase of Class A and Class B shares.
- Organized as a corporation (and registered with the SEC), Unified is owned by participating grocers, owner-patrons, with management oversight provided by its board of directors.
- Unified serves as a wholesaler, buying foods and other goods in bulk then re-selling them to its grocery store members at competitive prices.
- Unified also offers its members other services including sales and servicing; the Grocers Capital Company; store development; graphic services – advertising, the international division, customer service; SPOC; and retail technology.

Historic Context and Driver for Growth/Scale

- The two organizations that merged to form Unified Western Grocers started with fewer than 40 grocers. Now, Unified is the largest organization of its kind, having grown through a cooperative ownership structure.
- Unified Western Grocers serve relatively smaller scale and local independent grocers who often have trouble competing with larger, national chains.
- Because the cooperative can buy and distribute goods in bulk, it is able to supply its members with products at lower costs allowing them to compete with the larger grocery chains.
- Through growth, Unified Western Grocers has expanded both the scope and size of operations, managing staff size while working in concert with a unionized labor force.

Growth/Scale-Up of the Organization over Time

- The number of Hispanic grocers grew dramatically over the last several years in Southern California. The majority of grocers served by Western Unified Grocers in the Los Angeles area are now Hispanic.
- Along with the goods and services Unified offers its members, it also invests in research and development to determine what new services will help its members compete. From this research, Unified has incorporated new goods and services into its product mix including: Hispanic foods, delicatessen products, health and beauty products and services such as fraud detection, insurance, in-store promotion materials, design services and financing for the grocers.

- By offering services that support the growth of its members, Unified helps to increase its members' capacity to buy more products.
- Unified has also invested in the development of an internal training program to increase staff capability.

Lessons for Profitability, Sustainability and Successful Scale-Up

- Unified has been willing to exit unprofitable investments and return to its core business before these investments become a serious drain. For example, during the nineties, Unified purchased a small division of retail stores. When these stores turned out to be bad investments, Unified terminated these businesses and returned to focusing on its original work as a wholesaler and service provider.
- Unified has built an automated, 635,000 square foot distribution facility as well as several facilities to house their products.
- More than 95 percent of revenues come from Unified's core business as a wholesaler and distributor with the other five percent coming from support services.
- Unified has worked hard to balance its prices so they serve both its members and the organization, keeping the organization self-sustaining and profitable while continuing to offer its members the benefits of bulk rate purchasing.
- Unified has incorporated financial services and insurance services into its product mix, to support the growth of its member businesses.

CASE SUMMARY: VISA

Description of the Organization

- VISA is a for-profit association dedicated to offering its members, cardholders and merchants the ability to conduct commerce securely and conveniently by using the VISA credit card.
- VISA is configured in a democratic governance structure in which banks that issue the cards are part owners in the larger corporation.
- These member banks are divided into manageable, regional groupings. All member banks are treated equally regardless of their size or location.
- Each regional group coordinates the marketing, credit policies and other issues regarding the card in its local.
- Visa pioneered the creation of the credit card and popularized its use around the world.

Historic Context and Driver for Growth/Scale

- America in the 1950s was prosperous and with an array of goods available, many Americans sought small loans to give them more purchasing power.
- As banks rushed to keep pace with the demand for consumer credit, paper work and the time it took to process and service a large volume of small loans slowed progress.
- In 1958 the Bank of America issued its blue, white and gold BankAmericard (the precursor to the Visa Card) to customers in California in an attempt to bypass the paperwork and time involved in small loans.

Growth/Scale-Up of the Organization over Time

- A pilot program was rolled out in Fresno California, a small town of 250,000 where the bank had a critical mass of customers – 45 percent of families did business with the bank – and where, if the pilot flopped, word wouldn't get out to major metropolitan areas.
- Approximately 900 merchants and 3,400 customers signed on to get the card.
- In 1966, BofA negotiated licensing agreements with a number of reputable banks across the country so they could issue BankAmericards to their customers.
- This expansion to customers of other banks brought a number of technical challenges to work out such as the need to develop inter-bank clearance procedures – the means by which a bank in Ohio could handle the card purchase of someone visiting from California.
- To solve these technical problems, a democratic, self-governing partnership of card-issuing banks was formed to work together to manage and settle credit card financial transactions.
- IBM and DEC were hired to create a nationwide payment tracking system that would operate 24 hours a day, seven days a week and handle all electronic payments made using the card.
- To facilitate international expansion, Visa began by establishing small, local processing centers in Europe, Latin America, Asia and Africa.

Lessons for Profitability, Sustainability and Successful Scale-Up

- To facilitate its expansion plans, Bank of America needed to overcome the difficulties involved with offering its product to customers of another bank.
- After forming the member-owned corporation of card-issuing banks, Bank of America signed over the BankAmericard brand to this corporation.
- To ensure that partner banks were offered equal stakes in the BankAmericard venture, a democratically-managed coalition of member-banks was formed and Bank of America signed itself on as an equal partner with no more rights than any of the other partner-banks. Bank of America signed the same, member-owner agreement as all the other member banks.
- Visa was established in 1976, to facilitate global brand marketing of the card.
- To solve logistical difficulties, an international computing system that could link member banks had to be created to handle all electronic payments. This was accomplished by partnerships developed with DEC and IBM.

APPENDIX A

Lesson or Theme	Ace Cash Express	Unified Western Grocers	Dell Computer	Self-Help
1. Product Development and/or Acquisitions	Growth strategy focused on acquisition of existing businesses and internal growth through product development.	Growth of this cooperative organization is achieved through increased membership of independent grocers. Existing members determine relevant product development for the cooperative to explore and deliver.	Use "standards-based technology" that relied on standard industry components to design computer systems and deliver in streamlined fashion. Dell uses the best of what already exists, providing greater customer choice.	Brings traditional financial services to low- and moderate-income communities. Acts as a laboratory on how to provide financial services to those communities effectively.
2. Demand/Market Opportunity	Growing number of unbanked and under banked people who need financial services.	The prevalence of supermarkets and the economies of scale they achieve were crowding out independent grocers. A cooperative was needed to compete. UWG serves as a wholesaler and provides a range of services to 3700 independent grocers.	Targeted small- to medium-sized businesses as well as individuals, a large and growing market often ignored because viewed as resource-constrained compared to large corporations.	Lack of financial services in low- and moderate-income areas. Products ranging from business, depository, advisory, housing and development. Lack of a secondary market for community development loans.
3. Geography	Increasing geographic coverage is critical to scaling up operations.	Unified Western Grocers was created in 1999 as a result of the merger of Certified Grocers of California and United Grocers based in Oregon. Two organizations had similar histories but different geographic footprints.	Geographic expansion using regional headquarters to support direct sales philosophy. Simultaneous with construction of regional manufacturing and assembly facilities. Staged entry into new markets country by country. Initially used distributors until region determined "ready" for preferred direct sales model.	Core business stays in North Carolina, but certain programs allowed for effective geographic expansion. For example, Self-Help has provided mortgage loans in 47 states through their Community Advantage Program to develop a secondary market for non-conforming home loans.
4. Infrastructure	Custom built point of sale computer systems facilitated management of customer relationship, transactions and interactions. Two core systems: human resources and technology.	The cooperative is structured to focus on the core business: purchase, wholesale and distribution of food and dry goods for members. Member support departments include sales and servicing, the Grocers Capital Company; store development; graphic services for advertising; the international division; customer service; and retail technology.	Internet allowed Dell to expand reach while maintaining low inventory levels and avoiding the costs associated with retail outlets. Customer education was critical aspect of sales success and growth. Dell helped customers understand software and only purchase what was needed and relevant. Dell offered customized training and	Self-Help and their partners (foundations, government agencies, financial institutions, etc.) ensured that an appropriate infrastructure was in place prior to the national roll-out of the Community Advantage Program. This included rigorous research and testing of models for the structure and delivery of the lending product.

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			customer support which built brand loyalty.	
5. Technology	Success based on high-touch human based transactions w/ technology supported delivery. Also see below.	The cooperative developed proprietary technology to process orders and get products to grocers.	Dell replicated its direct sale model over the internet offering 24 hour customer service on line as well as another medium for product purchases. Within a year of announcing dell.com, daily sales over the internet totaled more than $3 million.	Technology is an important part of the Community Advantage Program due to the necessary scrutiny of data on nonconforming loans.
6. Partnership	Selected partners to add value by augmenting suite of product offerings.	Selected partners to add services for cooperative members.	Success driven by relationships (partnerships) with other technology organizations that allowed Dell to develop a standards-based product mix. Direct relationship with suppliers was critical – kept inventory costs low, sped delivery of new technologies to customers, and avoided unnecessary cost of transitioning from one technology to another.	Self-Help's Community Advantage Program was made possible through partnerships with HUD, the MacArthur Foundation, the Ford Foundation and Fannie Mae. The actual lending network for this program includes partnerships with Bank One, Bank of America, JP Morgan Chase and Wells Fargo, among other banks
7. Capital Sources and Requirements	Sourced through equity financings.	Equity from patron-owners through purchase of two classes of stock, debt from bank loans and lines of credit The cooperative simultaneously earns enough to pay dividends to the owners, improve margins by reducing costs and provide management and financing services to the members. A source of funds for financing subsidiary: sale of loans to National Coop Bank	Not raised in case study.	Internal earnings in the early stage. $3.5 million in grants and loans from philanthropic sources for portfolio development and analytical models. $50 million from the Ford foundation for credit enhancement and $1.8 million for operating expenses. Fannie Mae and banks committed almost $2 billion in participation in the lending network.

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8. Organizational Structure	Retail store with regional VPs and district managers for every 100 stores.	Unified created and seeded two subsidiary companies: a finance company and an insurance company.	Selling directly to customers provided best avenue to understanding and meeting customer computer needs. Direct sales model allows company to build every computer system to order at competitive prices.	Because access to credit was a significant barrier to expanding ownership, Self-Help created two financing affiliates: Self-Help Credit Union (a state chartered, federally insured credit union) and Self-Help Ventures Fund (a non-profit community development loan fund)
9. Regulation/Public Policy	Regulation by state-level consumer laws; must register as a financial service provider in some states; some state caps on fees for specific products	SEC compliant and USDA guidelines on food preparation for having warehouses and refrigerated facilities helped them grow.	Government purchasing helped them grow through large contracts.	Fannie Mae had an incentive to participate in the Community Advantage Program given the levels of activity in low- and moderate-income geographies as required by Congress. Financial institutions have an equal incentive through the Community Reinvestment Act.
10. Management	Decentralized divisional structure.	The CEO of the cooperative reports to the board of directors who are selected by and include owners / patrons. Staff of nearly 1000, with broad range of skills required. Continuing training program at headquarters used to build necessary skill sets.	Readiness for expansion determined by: size of current and potential market; availability of critical resources, especially management capacity and sales force; local acceptance of direct model; and containment of operating costs. Single point of contact and accountability for customers in the event of problems or questions.	Discussed and considered management succession policies since inception so that they could continue to grow.

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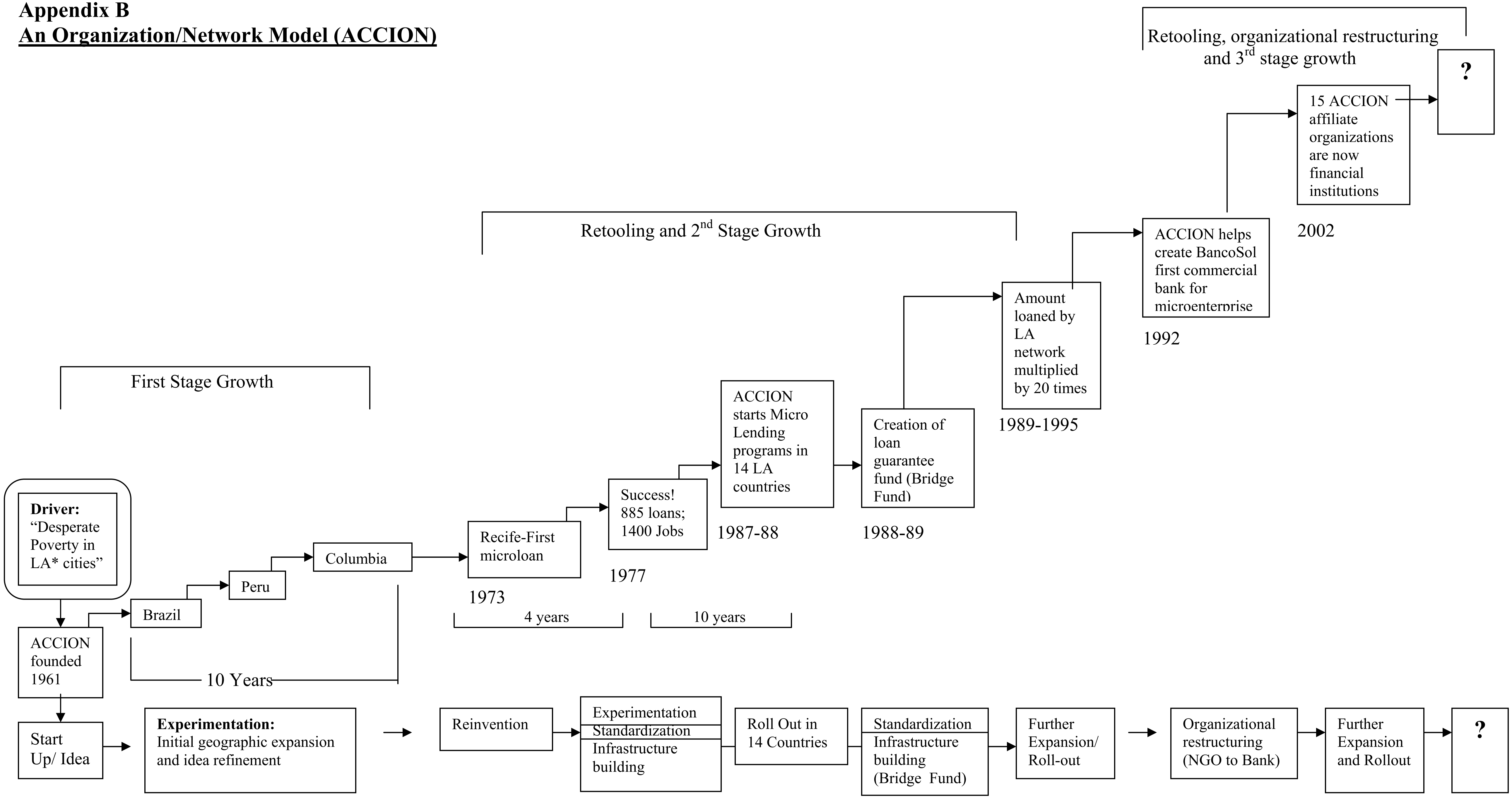
11. Adaptive Ability	Add products based on changing customer demand .	Between 1990 and 2001, conventional supermarket revenues in Southern California went from 69% to 2% of total revenues, while Hispanic market went from single-digit to 74% of revenues. UWG developed products and services appropriate to needs of grocers serving the Hispanic market.	Expanded product line, i.e., printers and went global.	Self-Help has pioneered a series of new products and services, moving from primary to secondary market products as it saw more powerful opportunities for financial intermediation.

Appendix B
An Organization/Network Model (ACCION)



*LA=Latin America

Appendix C
A Product/Industry Model (Visa)